Individual Income Tax

Informational Paper

2

Wisconsin Legislative Fiscal Bureau
January, 2005

Individual Income Tax

Prepared by

Faith Russell

Wisconsin Legislative Fiscal Bureau
One East Main, Suite 301
Madison, WI 53703

Individual Income Tax

The state individual income tax is the major source of general fund tax revenue in Wisconsin. In fiscal year 2003-04, individual income tax collections totaled $5.28 billion and comprised 49% of state general fund tax revenue.

This paper is organized into five general sections. These sections include: (a) policy goals in structuring an income tax; (b) Wisconsin's income tax structure; (c) differences between 2004 state and federal tax structures; (d) historical tax collections information; and (e) distributional information for tax year 2003. Finally, an appendix is attached that summarizes the historical development of the Wisconsin individual income tax, including the recent changes made during the 2003-2004 legislative session.

Policy Goals in Structuring an Income Tax

Several principles of tax policy warrant consideration in structuring an individual income tax. A brief summary of some major goals of tax policy is presented below.

Equity. The tax structure should provide equal treatment of equals and include only reasonable differences in the taxation of unequals. The principle of horizontal equity would indicate that taxpayers with the same amount of economic income should pay the same tax. Economic income may be adjusted to reflect distinctions for a lesser ability to pay taxes due to unusual medical expenses and casualty and theft losses or to recognize the higher subsistence costs of taxpayers with large families.

The principle of vertical equity attempts to distinguish among taxpayers with different amounts of income. Under this principle, it is argued that taxpayers with larger incomes have a greater ability to pay taxes and should pay more tax, both in the amount of dollars and as a percent of total income, than taxpayers with lesser income. Various provisions within the tax system may be used to achieve vertical equity, including provisions to exempt from tax a certain amount of income through a low-income allowance, standard deduction, or tax credit, or to tax higher-income taxpayers at higher tax rates through a progressive tax rate and bracket structure.

Efficiency. The goal of efficiency in the tax structure is to generate tax revenue without creating tax incentives that could distort the allocation of resources, investment, consumption, or work effort in society. An efficient tax creates minimal incentives for taxpayers to either work more hours or choose more leisure time, to invest in certain activities in preference to others, or to save or consume based on tax considerations. Tax provisions that reduce work effort or favor one type of investment over another may eventually reduce the total output in the economy.

Simplicity. The goal of simplicity for tax policy is to provide a tax system where the burden and costs of administration and compliance by both the taxpayer and the government are minimal. The tax structure should be understandable to the taxpayer and convey certainty to the taxpayer regarding the collection of taxes and administrative rulings.

Redistribution. The tax system can be used to transfer resources from individuals to the government to meet the collective goals of society. The income tax, as a tax based on capacity to pay, can be utilized to channel tax relief to low-income taxpayers to relieve undue hardship.

Economic Stabilization. Individual income tax collections generally rise over time with economic growth and inflation. During periods of increasing inflation, the income tax automatically draws resources out of the economy through rising tax liabilities, which can reduce demand and help to stabilize prices. The growth in revenues from the income tax over time also provides additional flexibility for fiscal policy to respond to growth or to fluctuations in economic cycles by lowering taxes or by increasing government expenditures.

Various features of the state's individual income tax reflect these policy goals. By way of example, the state generally uses federal adjusted gross income as the starting point in determining state taxable income, to simplify taxpayer compliance. The tax rate and bracket structure and the sliding scale standard deduction introduce an element of progressivity into the income tax. Finally, tax credits and personal exemptions are used to adjust for the differing capacities of taxpayers to pay taxes.

Wisconsin's Income Tax Structure

Overview

There are several steps involved in calculating state income tax liability for tax year 2004. In brief, these steps are to: (a) determine Wisconsin adjusted gross income (AGI); (b) subtract the state's standard deduction and personal exemptions from AGI to find Wisconsin taxable income; (c) apply the state's tax rate and bracket schedule to taxable income to find the gross tax amount; (d) subtract applicable state tax credits from the gross tax amount to arrive at the tentative net tax; and (e) determine if the state alternative minimum tax applies and, if applicable, add the minimum tax amount to the tentative net tax to arrive at the net tax liability. Each of these steps is summarized in the following sections of this paper.

Wisconsin Adjusted Gross Income

The starting point to arrive at Wisconsin AGI is federal AGI, which is derived from federal gross income. Gross income is income from all sources, except those for which specific exclusions are provided. Examples of items included in gross income are: wages, salaries, and tips; interest and dividends; alimony received; business income and losses; capital gains and losses; pensions and annuities; rents, royalties, and partnership income; farm income and losses; unemployment benefits; and a portion of social security benefits.

Examples of items specifically excluded from gross income are: (a) transfer payments, such as veterans' benefits and cash public assistance; (b) gifts and inheritances; (c) qualified scholarships; (d) contributions by an employer to accident and health plans; (e) employer adoption and educational assistance programs; and (f) qualified distributions from Coverdell education savings accounts, health savings accounts (HSAs), and qualified tuition programs.

Once gross income is determined, federal law permits the following subtractions to arrive at federal AGI: contributions to a Keogh retirement plan or to an individual retirement account (IRA) for taxpayers below certain income levels or not covered by a pension plan; qualified student loan interest; qualifying health savings account contributions; qualified higher education expenses; job-related moving expenses; one-half of the self-employment tax for social security and Medicare; health insurance for the self-employed; penalties on early withdrawals of savings; alimony paid; certain expenses of military reservists; and up to $250 in qualified, unreimbursed educator expenses.

The deduction for educator expenses had been scheduled to expire after tax year 2003. However, the federal Working Families Tax Relief Act (WFTRA) of 2004 (enacted on October 4, 2004), retained the deduction through tax year 2005. State law conformed to the federal educator deduction through 2003. However, state law has not been updated to incorporate the federal extension of this deduction through 2005.

Wisconsin requires the following major modifications to federal AGI to arrive at Wisconsin AGI:

Social Security Benefits. Prior to tax year 1994, up to 50% of social security benefits was taxed for higher-income taxpayers under both federal and state law. The federal taxation of social security was modified under the Revenue Reconciliation Act of 1993, which increased the maximum amount of taxable social security benefits from 50% to 85%, beginning in tax year 1994. However, the pre-1994 provision is retained for state tax purposes.

Under the state provision, for taxpayers with income exceeding certain thresholds, the taxable portion of social security is the lesser of: (a) one-half of net social security benefits; or (b) one-half of the amount by which provisional income exceeds a base amount. Provisional income is one-half of social security plus federal AGI, tax-exempt interest income, and amounts earned in a foreign country, U.S. possession, or Puerto Rico that are excluded from gross income. The base amounts are $25,000 for single taxpayers, $32,000 for married couples filing a joint return, and zero for married couples filing separate returns. If provisional income does not exceed the base amount, no social security benefits are taxable.

Under federal law, social security benefits are taxed under a two-tiered taxation scheme. The 1993 treatment continues to apply to single taxpayers with provisional income below $34,000 and married-joint taxpayers with provisional income below $44,000. Up to 50% of social security benefits is taxable for such taxpayers.

For taxpayers with provisional income above these higher thresholds, up to 85% of social security is taxable. The taxable portion of social security payments is the lesser of: (a) 85% of social security; or (b) the amount included under the 1993 law (not to exceed $4,500 for single taxpayers or $6,000 for married-joint taxpayers) plus 85% of the excess of provisional income over the applicable higher income thresholds. Married taxpayers who file separate returns are taxed on the lesser of 85% of social security or 85% of provisional income.

Federal/State Bond Interest. Under state law, interest from U.S. government securities is exempt from taxation and interest from state and municipal obligations (including Wisconsin's) is generally taxable. Specific state exclusions are provided for: (a) public housing authority or community development authority bonds issued by Wisconsin municipalities; (b) older Wisconsin Housing Finance Authority bonds; (c) Wisconsin municipal redevelopment authority bonds; (d) Wisconsin higher education bonds; (e) certain Wisconsin Housing and Economic Development Authority (WHEDA) bonds issued before January 29, 1987; (f) certain public housing agency bonds issued before January 29, 1987, by agencies in other states; (g) bonds issued by the governments of Puerto Rico, Guam, the Virgin Islands, or, for bonds issues after October 16, 2004, the Government of American Samoa; and (h) bonds issued by local exposition districts, local professional baseball park districts, local professional football stadium districts, and local cultural arts districts. Starting in 2004, as provided under 2003 Wisconsin Act 85, interest on WHEDA bonds issued to fund multifamily affordable housing or elderly housing projects is also exempt from the Wisconsin income tax.

Deductions for Health Insurance. Under federal law, starting with tax year 2003, self-employed persons are entitled to deduct 100% of amounts paid for health insurance for themselves, their spouse and their dependents. The federal treatment of self-employed health insurance is now the same as that under state law, which has provided a 100% deduction since tax year 1995. State law also provides that employees who are not covered by employer-provided medical insurance may deduct 50% of health insurance costs.

Organ Donor Expenses. Under state law, medical expenses that are deductible as federal itemized deductions are generally allowable deductions for use in calculating the state's itemized deduction credit (described in this paper under "Tax Credits"). Federal law permits taxpayers who itemize deductions to deduct medical expenses exceeding 7.5% of adjusted gross income. Such allowable deductions include out-of-pocket surgical, hospital, laboratory, and certain transportation and lodging expenses of organ donors or possible organ donors. Meals and lost wages associated with organ donation are not included in calculating the credit.

Effective with tax year 2004, as provided under 2003 Wisconsin Act 119, a Wisconsin resident may subtract up to $10,000 from federal AGI when computing Wisconsin AGI if the taxpayer, the taxpayer's spouse, or the taxpayer's dependent, while living, donates one or more organs to another human being for organ transplantation. The subtraction is allowed only for unreimbursed travel expenses, lodging expenses, and lost wages related to the organ donation. A subtraction for such expenses may only be claimed once and must be claimed in the year in which the organ transplantation occurs. The taxpayer may also include allowable organ donation expenses in calculating the itemized deduction credit, as described above.

Health Savings Accounts. Effective with tax year 2004, federal law exempts from taxation certain contributions to, and distributions from, a qualified health savings account. Under the federal provisions, an employee or another worker covered by a high-deductible health insurance plan (as defined under federal law) may make pre-tax contributions to an HSA to cover health care costs, subject to certain contribution limits that are indexed annually for inflation. The general limits are increased for individuals who are age 55 or older by the end of the tax year. An individual's employer may also make contributions to an HSA on behalf of an eligible individual; such contributions are excluded from the employee's income for federal tax purposes. HSA distributions are exempt from tax, as long as they are used to pay for qualified medical expenses of the account beneficiary. Earnings on amounts retained in HSAs are also exempt from tax.

In May of 2004, the Wisconsin Legislature approved legislation that would have adopted the federal health savings account provisions for state income tax purposes. However, as a result of a veto of the legislation by the Governor, the state does not currently conform to the federal HSA provisions. Therefore, contributions to, and earnings on, HSAs that are exempt for federal tax purposes must be added back to federal AGI for state tax purposes. However, because the initial contributions to HSAs, and the earnings on such contributions, are subject to the state income tax, subsequent distributions from HSAs are not subject to tax at the state level.

Through tax year 2003, Wisconsin was in conformance with federal provisions related to Archer Medical Savings Accounts (MSAs), which were precursors to HSAs. Under prior federal law, the MSA program expired as of December 31, 2003, which meant that no new MSAs could be established, although existing accounts could be maintained. However, the Working Families Tax Relief Act of 2004 extended the federal MSA provisions through December 31, 2005. State law has not been updated to conform to the federal law change.

Medical expenses paid with HSA distributions and MSA distributions from accounts established after 2003 are allowed in the computation of the Wisconsin itemized deduction credit. However, any distributions from MSAs established prior to 2004 would be from contributions and earnings that had not been subject to Wisconsin tax. Therefore, medical expenses paid for with such distributions would not be allowed in the computation of the Wisconsin itemized deduction credit.

Unemployment Benefits. In tax year 1986, a limited exclusion for unemployment compensation benefits was provided under federal and state law. This exclusion, which was repealed under federal law beginning with the 1987 tax year, is retained for state tax purposes.

Under the state exclusion, if the sum of the taxpayer's unemployment compensation benefits and AGI is less than or equal to a base amount, then the entire benefit amount is excluded from income. The base amount is $12,000 for single taxpayers, $18,000 for married couples filing joint returns, and zero if married filing separately. If the amount of benefits plus AGI exceeds the base amount, then the amount of unemployment compensation benefits includible in gross income is the lesser of: (a) one-half of the excess of the taxpayer's AGI, including benefits, over the base amount; or (b) the amount of the unemployment compensation benefits.

Farm and Farm Investment Losses. There are state limits on the amount of net losses from the operation of, or investment in, a farming business that may be used to offset nonfarm income for persons who are not determined to be actively engaged in farming. The amount of offset allowed is reduced as nonfarm income is increased: the full amount is deductible for nonfarm income of less than $55,000 and no loss is allowed if nonfarm income exceeds $600,000. Farm losses disallowed as a deduction may be carried forward for 15 years. Table 1 presents the allowable losses and nonfarm AGI levels for single persons and married persons filing a joint return. For married taxpayers filing separate returns, the allowable losses are one-half of the amounts shown in Table 1.

Table 1: Farm Loss Limits for Persons Not Actively Engaged in Farming

Nonfarm AGI	Allowable Loss
$0 - $55,000	Full Amount
55,000 - 75,000	$20,000
75,000 - 100,000	17,500
100,000 - 150,000	15,000
150,000 - 200,000	12,500
200,000 - 250,000	10,000
250,000 - 300,000	7,500
300,000 - 600,000	5,000
600,000 and Over	No Loss

There are no limits on the amount of state farm losses that may be used to offset nonfarm income for persons who are determined to be actively engaged in farming, as defined under federal law. Under the applicable federal law, to be considered actively engaged in farming means that the individual or entity independently makes a significant contribution of capital, equipment or land, and personal labor or management to a farming operation. In addition, the individual or entity must have a share of profits or losses from the farming operation that is commensurate to their contribution and their contribution must be at risk.

Prior to the 1999 tax year, the farm loss limits applied to all taxpayers, regardless of whether the individual was determined to be actively engaged in farming. In addition, the amount of nonfarm income a taxpayer could have before no loss was allowed was increased from $400,000 to $600,000 beginning in 1999.

Capital Gains Exclusion. A capital gains exclusion is provided for 60% of the capital gain from the sale of assets held more than one year (except for gains realized on the sale of business assets to a family member, which is described below). Gains from assets held one year or less are fully taxed. The amount of capital losses that may be used to offset ordinary income is limited to $500 annually, with the remainder carried over to future years.

Capitals Gains Exclusion on Business Assets Sold to Family Members. A complete exclusion is provided for net long-term capital gains (a gain on assets held more than one year) realized on the sale of business assets and assets used in farming to an eligible family member. This provision took effect in the 1998 tax year. An eligible family member includes a person who is related by blood, marriage, or adoption within the third degree of kinship, which includes children, grandchildren, great grandchildren, parents, grandparents, brothers, sisters, nephews, nieces, uncles, and aunts.

Besides individuals, this exclusion also applies to shares in a corporation or trust that meet the same standards that allow a corporation or trust to carry on farming operations in the state. These standards provide that the corporation or trust may not have more than 15 shareholders or beneficiaries (except that one family may count lineal ancestors and descendants, aunts, uncles, and first cousins as one shareholder), that there are no more than two classes of shares, and that all shareholders or beneficiaries are natural persons.

A family member who purchases a business under this provision is required to retain ownership for at least two years. If the business assets are resold within two years, a penalty will be imposed equal to the amount of income tax that would have been imposed on the initial seller if the complete exclusion did not apply to the transaction, prorated according to the amount of time the assets were held.

Capital Gains Exclusion for Small Businesses. A special exclusion for long-term capital gains resulting from the sale of qualifying small business stock is provided under state law. To be eligible, the stock must be purchased after December 31, 1985, and must be held for at least five years. In addition, the business must have the following characteristics: (a) at least 50% of its payroll and property is located in Wisconsin; (b) it employs no more than 500 employees covered by state unemployment insurance, including the employees of any corporation that owns more than 50% of the business' stock; (c) it receives no more than 25% of its gross receipts from rent, interest, dividends, and sales of assets combined unless the amount is under $3,000 and the corporation has been incorporated less than two years; (d) it has not previously issued stock listed on the major stock or securities exchanges; and (e) it has not liquidated or reorganized for the purpose of using this tax exemption.

Two limitations to this exclusion apply to stock acquired after August 15, 1991: (a) the exclusion is available only to the original purchaser of stock at the time the business is incorporated; and (b) an exchange of stock for stock does not qualify for the exclusion.

Depreciation. Federal and state laws provide deductions for deprecation, which allow taxpayers to recover, over a period of years, the cost of capital assets used in a trade or business for the provision of income. Wisconsin law generally conforms to the federal depreciation provisions under the Internal Revenue Code (IRC) in effect on December 31, 2000.

The federal Job Creation and Worker Assistance Act of 2002 provided taxpayers with an additional first-year depreciation deduction equal to 30% of the adjusted basis of certain property acquired after September 10, 2001, and before September 14, 2004. The federal Jobs and Growth Tax Relief Reconciliation Act of 2003 increased the first-year depreciation bonus from 30% to 50% for property acquired after May 5, 2003. The 50% first-year depreciation provision applies for property acquired after May 5, 2003, and before January 1, 2005. State law does not conform to either of the federal first-year bonus depreciation provisions.

In addition to providing a first-year depreciation bonus, federal law provides special treatment with respect to depreciation of certain business expenses. Under section 179 of the IRC a taxpayer may elect to expense certain business assets for federal tax purposes that would otherwise be treated as capital expenses and depreciated. In recent years, the federal thresholds for the maximum amounts that can be expensed under these provisions have been increased. State law does not conform to these federal changes. For more information on federal and state depreciation provisions, refer to the Legislative Fiscal Bureau's informational paper entitled, "Corporate Income/Franchise Tax."

Disability Income. A taxpayer who meets certain requirements may exclude from gross income up to $100 of disability income per week, or $5,200 per year. In order to qualify for the exclusion the taxpayer must satisfy several criteria, including: (a) be under the mandatory retirement age set in the retirement program offered by the taxpayer's employer; (b) be under age 65; (c) have retired on disability and have been permanently and totally disabled at retirement; and (d) prior to 1984, did not choose to treat the disability income as a pension for tax purposes. The exclusion is reduced dollar-for-dollar for the amount the taxpayer's adjusted gross income is above $15,000.

Pension Benefits of Certain Public Employees. All pension payments received by taxpayers who were members of, or retired from, certain public pension systems prior to 1964 may be excluded from taxation under state law. This exclusion applies to federal civilian or military retirement systems. In addition, benefits received under the following state and local retirement plans are eligible for this exclusion: (a) Milwaukee Public School Teachers' Annuity and Retirement Fund; (b) Wisconsin State Teachers' Retirement System; (c) Employers' Retirement System of the City of Milwaukee; (d) Milwaukee County Employees' Retirement System; (e) Sheriffs' Annuity and Benefit Fund of Milwaukee County; (f) Policemen's Annuity and Benefit Fund of Milwaukee; and (g) Firemen's Annuity and Benefit Fund of Milwaukee. Further, railroad retirement benefits are excluded from state taxation under federal law.

Military Benefits. The 2003 Military Family Tax Relief Act provided the following federal tax benefits related to the military: (a) effective September 11, 2001, a 100% exclusion for the military death benefit (which was increased from $6,000 to $12,000), versus 50% under prior federal law; (b) in the case of uniformed and foreign service personnel serving on qualified official extended duty, an easing of a restriction on the exclusion for the gain from the sale of a residence, effective for home sales after May 6, 1997; (c) an exclusion from income received after November 10, 2003, for certain payments related to a loss on the sale of a residence; (d) clarification that certain dependent care assistance is a qualified military benefit and, therefore, excludable from income; (e) for tax years beginning after December 31, 2002, a deduction from income for travel expenses of members of the National Guard and Reserve when they travel away from home and must stay away overnight; and (f) an extension of certain tax benefits related to victims of terrorist attacks to astronauts killed in the line of duty, effective with deaths occurring after December 31, 2002. These federal law changes have not been adopted for state tax purposes.

Military Pay. Wisconsin law conforms to a federal income tax exclusion for military pay earned while serving in a combat zone. In addition, as provided under 2003 Wisconsin Act 183, Wisconsin law provides that a member of a reserve component of the armed forces that has been called into active federal service or special state service may deduct all income paid by the federal government for such service, whether or not the service occurs in a combat zone. The new exclusion for active duty pay received by military reservists outside of a federal combat zone took effect on January 1, 2004. A person who claims this exemption may not claim the state income tax credit for military income, which is described in this paper under "Tax Credits."

Military Pensions. Effective with tax year 2002, the state provides an income tax exclusion for all federal uniformed services retirement benefits, including benefits to survivors.

Moving Expenses. Under state law, job-related moving expenses may not be deducted for moves out of Wisconsin.

Adoption Expenses. Since 1996, state law has allowed a deduction for up to $5,000 in adoption expenses. The deduction may be taken during the tax year that a final order of adoption has been entered, for adoption expenses incurred in that tax year and the two prior tax years. Allowable expenses include adoption fees, court costs, and legal fees related to the adoption of a child for whom a final order of adoption is entered.

Federal law has provided an adoption expense credit equal to $5,000 ($6,000 for the adoption of a special needs child) since tax year 1997. Effective with tax year 2002, the federal credit was increased to up to $10,000 of qualified adoption expenses per child. The credit is indexed annually for inflation; for tax year 2004, the maximum credit is $10,390. In the case of a special needs adoption, the maximum credit amount applies regardless of whether the taxpayer has qualified adoption expenses. Unused credits may be carried forward for five years.

EdVest College Savings Programs. The Wisconsin EdVest program offers two college savings options that meet federal standards for a qualified state tuition program [QSTP]. The first program is the college tuition and expenses program, under which an individual may purchase "tuition units" for a designated beneficiary. This program was started in 1997, and is administered by the State Treasurer's office with investments managed by the State of Wisconsin Investment Board. The second EdVest program is the college savings account program, under which individuals contribute to a college savings account for a designated beneficiary (rather than purchasing tuition units). The savings account program is managed by an 11-member College Savings Program Board, and began offering accounts in 2001.

While both types of college savings programs continue to be authorized by state statute, the State Treasurer's office has closed the tuition unit option to all new investments, effective December 20, 2002. Instead, EdVest is now offering a wider variety of investment options through the newer, more flexible college savings account program.

For state tax purposes, effective with tax year 2001, donors may deduct up to $3,000 in contributions to an EdVest account if the beneficiary is the purchaser, the purchaser's spouse, or the purchaser's dependent child. Under 2001 Wisconsin Act 109, the deduction for contributions to EdVest programs was extended to grandparents of a beneficiary, effective with tax year 2002. Under 2003 Wisconsin Act 289, effective January 1, 2004, the deduction for contributions was again extended, this time to include contributions by great-grandparents, aunts, and uncles of account beneficiaries.

Wisconsin has provided an income tax exemption for EdVest earnings and qualified distributions since 1997. Under the 2001 Economic Growth and Tax Relief Reconciliation Act (EGTRRA), the federal government adopted a similar exemption for earnings and distributions from any QSTP. EGTRRA also provided that, effective with tax year 2004, the exemption for earnings and distributions is extended to earnings and distributions from qualified tuition programs offered by private institutions in addition to state-sponsored plans. These federal provisions also apply for state purposes.

The Legislative Fiscal Bureau provides more information on these programs in the informational paper entitled, "Student Financial Aid."

Higher Education Tuition Expenses. Since tax year 1998, state law has allowed up to $3,000 in tuition expenses to be deducted from income. The deduction applies to tuition paid on behalf of the taxpayer or the taxpayer's dependent. Allowable tuition expenses include tuition paid to attend any university, college, technical college, or a school approved by the Education Approval Board that is located in Wisconsin or to attend a public vocational school or public institution of higher education in Minnesota under the Minnesota-Wisconsin tuition reciprocity agreement.

A federal deduction for qualified higher education expenses is also available for tax years 2002 through 2005. The maximum federal deduction was $3,000 in 2002 and 2003 and is $4,000 in 2004 and 2005. The deduction is also subject to income limits. Wisconsin has not adopted the federal deduction for state purposes. Therefore, a Wisconsin resident claiming the federal deduction must add back the amount that was excluded from federal AGI and then deduct the amount allowable for state tax purposes.

Long-Term Care Insurance. Premium costs paid by taxpayers for long-term care insurance for the taxpayer and his or her spouse are deductible from income. This provision took effect in tax year 1998.

Standard Deduction

Taxable income, the amount of income that is actually subject to tax, is computed by subtracting the sliding scale standard deduction and personal exemptions from Wisconsin 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.

As shown in Table 2, for 2004, a single taxpayer with Wisconsin AGI less than $11,470 has a standard deduction of $7,950; for single taxpayers with adjusted gross income in excess of $77,720, no standard deduction is provided. Married taxpayers filing a joint return with AGI less than $16,100 have a standard deduction of $14,330; if their AGI is greater than $88,554, no standard deduction is available. Married taxpayers filing separate returns have a standard deduction of $6,810 if their AGI is less than $7,640; if their AGI is greater than $42,072, no standard deduction is provided. Head-of-household taxpayers with AGI of less than $11,470 may claim a standard deduction of $10,270; no deduction is allowed if income exceeds $77,720.

Table 2: Sliding Scale Standard Deduction for Tax Year 2004

Marital Status	Wisconsin AGI	Standard Deduction
Single	Less than $11,470	$7,950
	$11,470 to $77,720	$7,950-12.0% (WAGI-$11,470)
	Greater than $77,720	$0
Married, Joint	Less than $16,100	$14,330
	$16,100 to $88,554	$14,330-19.778% (WAGI-$16,100)
	Greater than $88,554	$0
Married, Separate	Less than $7,640	$6,810
	$7,640 to $42,072	$6,810-19.778% (WAGI-$7,640)
	Greater than $42,072	$0
Head-of-Household	Less than $11,470	$10,270
	$11,470 to $33,534	$10,270-22.515% (WAGI-$11,470)
	Greater than $33,534	Single Standard Deduction

Beginning in tax year 1999, the dollar amounts used in the standard deduction are indexed for annual changes in inflation, rounded to the nearest $10. However, no indexing adjustment was made to the standard deduction in 2000 because it was increased statutorily. The statutory increase provided a larger standard deduction than would have resulted under indexing. Indexing adjustments resumed with tax year 2001.

Personal Exemptions

Personal exemptions are subtracted from Wisconsin AGI, along with the standard deduction, to arrive at taxable income. A $700 personal exemption is provided for each taxpayer, the taxpayer's spouse, and for each individual claimed as an exemption 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 (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.

Personal and senior exemptions were created in 1999 Wisconsin Act 9. Act 9 provided a personal exemption of $600 for 2000, with an increase to the current level of $700 for 2001 and thereafter. The senior exemption under Act 9 was $200 for 2000, with an increase to the current level of $250 for 2001 and thereafter. Prior to 2000, a $50 credit was provided for each dependent of the taxpayer and a $25 credit was provided for each taxpayer age 65 or over who met certain income limitations. No credit was provided for a taxpayer or spouse under the age of 65.

Tax Rates and Brackets

Wisconsin taxable income is multiplied by the applicable tax rates to arrive at gross tax liability. The tax rate structure is cumulative so that marginal tax rates apply only to income that falls within the appropriate bracket. For married taxpayers filing jointly in 2004, the first $11,480 of taxable income is taxed at 4.60%, the second $11,480 is taxed at 6.15%, the next $149,240 is taxed at 6.50%, and taxable income in excess of $172,200 is taxed at 6.75%.

Table 3 shows the tax rate and bracket schedules for tax year 2004. Prior to tax year 2000, the tax structure consisted of three tax brackets. The 1999-01 biennial budget modified the tax rate and bracket structure by creating a fourth income tax bracket and reducing the tax rates. The rates were reduced in two steps, first for tax year 2000 and then again for tax years 2001 and thereafter.

Beginning with tax year 1999, the tax brackets are indexed annually for changes in inflation.

Table 3: Tax Rates and Brackets for Tax Year 2004

Filing Status	Taxable Income At Least	Taxable Income But Less Than	Gross Tax is Amount Below, Plus Tax Rate Percent Listed Applied to Amount of Income in Excess of First Column	
Single, Head-of-Household	$---	$8,610	$---	4.60%
	8,610	17,220	396	6.15
	17,220	129,150	926	6.50
	129,150 and over		8,201	6.75
Married, Joint	$---	$11,480	$---	4.60%
	11,480	22,960	528	6.15
	22,960	172,200	1,234	6.50
	172,200 and over		10,935	6.75
Married, Separate	$---	$5,740	$---	4.60%
	5,740	11,480	264	6.15
	11,480	86,100	617	6.50
	86,100 and over		5,467	6.75

Tax Credits

Wisconsin provides a number of tax credits that may be subtracted from the gross tax liability. Unless noted, individual income tax credits are not refundable; thus, such credits can be used to reduce net tax liability to zero but the amount of the credit may not exceed tax liability.

Married Couple Tax Credit. In tax year 2004, two-earner families are eligible for a married couple credit equal to 3.0% of the earned income of the secondary wage earner, up to a maximum credit of $480. The married couple credit was increased under both the 1997-99 and the 1999-01 biennial budgets.

Earned income is defined as wages, salaries, tips, scholarships or fellowships, disability income treated as wages, other compensation, and net earnings from self-employment, reduced by certain amounts allowed as adjustments to gross income, such as IRA and Keogh contributions.

Itemized Deduction Tax Credit. If allowable itemized deductions exceed the sliding scale standard deduction, the excess amount is eligible for a tax credit of 5%. Allowable expenses for calculating the state credit generally conform to the expenses permitted as federal itemized deductions. These include: (a) charitable contributions; (b) medical expenses exceeding 7.5% of adjusted gross income; (c) interest expenses for a principal residence or a second home in Wisconsin; (d) interest expenses for property sold on a land contract; and (e) other interest expenses, except personal interest. Federal law also permits deductions for state and local taxes and certain miscellaneous expenses. These federal deductions are not allowed for purposes of computing the state's itemized deduction tax credit.

Property Tax/Rent Credit. The property tax/ rent credit (PTRC) is equal to 12% of property taxes, or rent constituting property taxes, paid on a principal residence up to a maximum of $2,500 in property taxes for tax year 2000 and thereafter. The maximum credit is $300. Rent constituting property taxes is defined as 25% of actual rent if payment for heat is not included in rent or 20% of actual rent if payment for heat is included in rent.

The PTRC has been modified several times in recent years. From tax years 1989 through 1997, the credit was equal to 10% of the first $2,000 in property taxes, or rent constituting property taxes, for a maximum credit of $200. The credit was increased on a one-time basis in 1998 to 14% of the first $2,500 in property taxes or rent for a maximum credit of $350. The credit was then eliminated in 1999 as part of the sales tax rebate legislation (1999 Wisconsin Act 10). Finally, the credit was restored at the 12% rate in 2000 under 1999 Wisconsin Act 198.

Working Families Tax Credit. Taxpayers with Wisconsin AGI below $9,000 ($18,000 if married-joint) may claim a credit equal to their net tax liability. The credit phases out over the next $1,000 in income until eliminated when AGI exceeds $10,000 ($19,000 if married-joint). The credit eliminates state income taxes for single taxpayers with AGI below $9,000 and married couples filing joint returns with AGI below $18,000. The working families credit took effect in 1998. This credit is claimed by a relatively small number of taxpayers because most individuals and families at these income levels do not have a net tax liability due to the standard deduction, personal exemptions, and other credits.

Credit for Military Income. Beginning with tax year 2000, a credit for up to $200 in income received as an active duty member of the U.S. Armed Forces while stationed outside of the U.S. is provided. A married couple is eligible for a credit of up to $400 if both spouses qualify.

Earned Income Tax Credit. The earned income tax credit (EITC) is offered at both the federal and state levels as a means of providing assistance to lower-income workers. The state EITC is calculated as a percentage of the federal credit and the state uses federal definitions and eligibility requirements for purposes of the EITC, except that the state does not provide a credit to individuals without children or advance payments of the credit. Both the federal and state credits are refundable. If the credit exceeds the amount of tax due, a check is issued for the difference.

The credit is calculated based on family size, filing status, and on the amount of earned income (individuals without earned income are not eligible for the credit). Earned income includes wages, salaries, and self-employment income. In addition, as provided under the federal Working Families Tax Relief Act of 2004, a taxpayer may choose to include combat pay that is otherwise excluded from gross income as earned income for purposes of calculating the earned income credit for tax years 2004 and 2005. Earned income does not include interest earnings, social security, or welfare benefits. Individuals with more than a specified amount of disqualified income are not eligible for the credit. Disqualified income is interest (including tax-exempt interest), dividends, nonbusiness rents and royalties, net capital gains, and net passive income. For tax year 2004, the disqualified income threshold is $2,650; this amount is adjusted each year for changes in inflation.

The federal credit parameters for tax year 2004 are outlined in Table 4; the income and maximum credit amounts are adjusted each year for changes in inflation. The state credit percentages are: 4% for families with one child; 14% for families with two children; and 43% for families with three or more children. Based on the 2004 federal credit parameters shown in Table 4 and the state credit percentages, the maximum state credits for 2004 are: $104 for families with one child, $602 for families with two children, and $1,849 for families with three or more children. The maximum state credits change each year as the federal credit parameters are adjusted for inflation.

Table 4: 2004 Federal EITC Provisions*

	No Children	One Child	2 or More Children
Credit Percentage	7.65%	34.0%	40.0%
Maximum Credit Income	$5,100	$7,660	$10,750
Maximum Credit	390	2,604	4,300
Phase-Out Income	6,390	14,040	14,040
Phase-Out Rate	7.65%	15.98%	21.06%
Maximum Income	11,490	30,338	34,458

*For married-joint filers, the phase-out incomes and maximum income levels for 2004 exceed those shown above by $1,000.

More information on the EITC can be found in the Legislative Fiscal Bureau's informational paper entitled, "Earned Income Tax Credit."

Homestead Credit. A refundable homestead credit may be claimed by taxpayers if certain income and property tax/rent requirements are fulfilled. For property taxes or rent accrued in 2000 and thereafter, the homestead credit is limited to households with annual income of not more than $24,500. The income measure used, called household income, includes income that is taxable for Wisconsin income tax purposes and most types of nontaxable cash income. The first $1,450 of the property tax bill is considered in determining the amount of the credit for homeowners. For renters, 25% of rent, or 20% if heat is included, up to a maximum of $1,450 annually is considered. The amount of credit is determined by a formula. Households with incomes below $8,000 receive the maximum relief (80% of eligible property taxes). As income exceeds $8,000, the credit is reduced. The maximum credit is $1,160.

More detailed information on the homestead credit is presented in the Legislative Fiscal Bureau's informational paper entitled, "Homestead Tax Credit."

Farmland Preservation Tax Credit. The refundable farmland preservation credit is provided to owners of farmland that is protected by exclusive agricultural zoning or a preservation agreement with the state Department of Agriculture, Trade, and Consumer Protection. The credit is calculated with a formula that accounts for the claimant's property taxes and household income and the preservation agreement provisions, or zoning and planning provisions, that cover the farmland. Up to $6,000 of property taxes may be claimed. The maximum credit is $4,200 for certain claimants with income below $5,000. The credit is reduced as income rises above $5,000. For higher-income claimants, a minimum credit equal to 10% of eligible property taxes is provided.

To be eligible for the farmland preservation tax credit, a claimant must own at least 35 acres of state farmland and that farmland must have produced at least $6,000 of gross farm profits during the year or at least $18,000 in gross farm profits in the last three years combined. A claimant may not receive the farmland preservation tax credit in a tax year in which a homestead tax credit is received.

Farmland Tax Relief Credit. The farmland tax relief credit is computed as a percentage of the first $10,000 of property taxes up to a maximum credit of $1,500. The reimbursement rate is determined annually by the Department of Revenue (DOR) at a rate that will distribute the funds available for credit payments in that year, which are equal to $15 million for claims filed plus an amount equal to the amount estimated to be expended in the previous year minus the actual expenditures for the credit in the previous year. The maximum allowable credit is $1,500.

The farmland tax relief credit is refundable and is funded from a sum sufficient appropriation from the segregated lottery fund. For tax year 2004, with $11.7 million available for distribution, DOR established the credit reimbursement rate at 15% of the first $10,000 in property taxes.

The credit is subject to the same acreage and production requirements as those for the farmland preservation credit. The farmland tax relief credit can be claimed in addition to the farmland preservation tax credit; however, the maximum benefit from both credits may not exceed 95% of farm property taxes.

More detailed information on the farmland preservation and farmland tax relief credits is provided in the Legislative Fiscal Bureau's informational paper entitled, "Farmland Preservation and Tax Relief Credits."

Supplement to Federal Historic Rehabilitation Credit. A 5% credit is provided for improvements made to rehabilitate certified historic structures. The credit may be claimed for depreciable nonresidential real property, residential rental property, and real property with a class life over 12.5 years. The definition of qualified rehabilitation expenditures under state law is based on a similar 20% credit provided for federal tax purposes. The credit is applicable to both individual and corporate tax liabilities. Unused credit amounts can be carried forward for 15 years and the basis of the property is reduced by the amount of the credit taken.

State Historic Rehabilitation Credit. A 25% income tax credit is available to natural persons for expenditures for the preservation or rehabilitation of eligible historic property. The maximum tax credit is $10,000. The property must be an owner-occupied personal residence, and cannot be actively used in a trade or business or be held for the production of income or sale in the course of the taxpayer's trade or business. In order to qualify for the credit, rehabilitation expenses must exceed $10,000 and the taxpayer cannot claim the state supplement to the federal historic rehabilitation credit for those expenses. The taxpayer must repay all or a portion of the credit if the property is sold or its historic features altered within five years.

Angel Investment Credit. Under 2003 Act 255, effective for taxable years beginning on or after January 1, 2005, an individual may claim an angel investment credit against the individual income tax equal to claimant's bona fide angel investment (as described below) made directly in a qualified new business venture in a tax year. The 12.5% tax credit may be claimed for two years, beginning with the tax year in which the initial investment is made. The total credit is 25% of the amount invested. The maximum amount of a claimant's investment that may be used as the basis for the credit is $500,000 for each investment made directly in a certified business. Unused credit amounts may be carried forward up to 15 years to offset future tax liabilities. The credit may be claimed against the alternative minimum tax.

The maximum aggregate amount of tax credits that may be claimed in each year is $3.0 million. The total aggregate amount of tax credits that may be claimed is $30 million. If a claimant holds an investment for which a credit is claimed for less than one year, the claimant is required to repay the amount of the credit to DOR.

A bona fide angel investment is a purchase of an equity interest, or any other expenditure, as determined by rule by the Department of Commerce (Commerce) and DOR, that is made by an individual who reviews new businesses or proposed new businesses for potential investment of the individual's money (or a network of such individuals).

A qualified new business venture must be certified by Commerce. To be certified, a business must satisfy all of the following conditions: (a) it has its headquarters in Wisconsin; (b) at least 51% of its employees are employed in the state; (c) it is engaged in, or has committed to engage in, manufacturing, agriculture, or processing or assembling products and conducting research and development, or developing a new product or business process; (d) it is not engaged in real estate development; insurance; banking; lending; lobbying; political consulting; professional services provided by attorneys, accountants, business consultants, physicians, or health care consultants; wholesale or retail trade; leisure; hospitality; transportation; or construction; (e) it has fewer than 100 employees; (f) it has not been operating in Wisconsin for more than seven consecutive years; and (g) it has not received more than $1.0 million in investments that would qualify for angel investment tax credits.

Early Stage Seed Investment Tax Credit. 2003 Act 255 also created an early stage seed investment tax credit against the individual income and corporate income and franchise taxes, effective for taxable years beginning on or after January 1, 2005. The credit is equal to 25% of the claimant's initial investment paid in a taxable year to a fund manager that the fund manager invests in a certified qualified new business venture (defined as described above for the angel investment credit). Unused credit amounts may be carried forward up to 15 years to offset future tax liabilities. The credit may be claimed against the alternative minimum tax. The aggregate amount of tax credits that may be claimed for investments paid to certified fund managers is $3.5 million per taxable year. The maximum total aggregate amount of tax credits that may be claimed is $35.0 million. More detailed information on the early stage seed investment tax credit can be found in the Legislative Fiscal Bureau's informational paper entitled, "Corporate Income/Franchise Tax."

Credit for Sales Tax on Fuel and Electricity Used in Manufacturing. For tax years beginning before January 1, 2006, business owners (sole proprietors, partners, and shareholders) may claim a tax credit for sales taxes on fuel and electricity used in manufacturing under the individual income tax. Shareholders and partners may claim the credit in proportion to their ownership interest in the business. The credit may only be claimed against the tax imposed on the business operations of the claimant in which the fuel and electricity are consumed. For shareholders and partners, the credit may only be claimed against their pro-rated share of income. Any unused credit amounts may be carried forward for up to 20 years. Prior to 1998, the credit was available to offset corporate income tax liability, but not for businesses that file under the individual income tax. The carry-over period was increased from 15 to 20 years under provisions included in 2003 Wisconsin Act 267, and applies retroactively to tax years beginning on or after January 1, 1998.

As provided under 2003 Wisconsin Act 99, the credit for sales tax on fuel and electricity used in manufacturing is repealed for tax years that begin after December 31, 2005. Act 99 provides, instead, a sales and use tax exemption for fuel and electricity consumed in manufacturing tangible personal property in Wisconsin, beginning January 1, 2006. Act 99 also allows manufacturers meeting certain investment and employment criteria to claim unused sales tax credits from prior years. This treatment, which depends on the manufacturer's amount of unused credits, is effective for taxable years beginning on or after January 1, 2006.

More detailed information on the credit for sales tax on fuel and electricity used in manufacturing is provided in the Legislative Fiscal Bureau's informational paper entitled, "Corporate Income/Franchise Tax."

Development Zones Tax Credit. The development zones tax credit is based on amounts spent on environmental remediation and the number of full-time jobs created or retained in a development zone, a development opportunity zone, an enterprise development zone, a technology zone, or agricultural development zone. The credit can only be used to offset income related to the claimant's business activities in such a zone.

Development Zone Capital Investment Credit. 2001 Wisconsin Act 16 created a development zone capital investment tax credit that is available to businesses in the Milwaukee and Beloit development opportunity zones, technology zones, and agricultural development zone. The development zone capital investment tax credit equals 3% of the purchase price of depreciable, tangible personal property and the amount expended to acquire, construct, rehabilitate, remodel, or repair real property in the zone.

A claimant may also claim a tax credit for amounts expended to acquire real property, if the property was not previously owned and the claimant acquired the property after the place where the property was located was designated a development opportunity or agricultural development zone or if the completed project was placed in service after the clamant was certified as eligible for tax benefits.

Technology Zones Credit. 2001 Act 16 also created a technology zones program, under which the Department of Commerce was authorized to create eight technology zones. A business that is located in a technology zone and that is certified by Commerce is eligible to claim certain development zones tax credits and the technology zone tax credit. To be certified as eligible for the technology zone credit, the business must be new or expanding and be a high-technology business.

Under Act 16, the technology zone tax credit was equal to the sum of the following: (a) the amount of real and personal property taxes paid during the tax year; (b) the amount of state income and franchise taxes paid during the tax year; and (c) the amount of state, county, and special district sales and use taxes paid during the tax year. Under 2003 Wisconsin Act 72, the Act 16 provisions that had provided credits for state income and franchise taxes paid and for state, county, and special district sales taxes paid were eliminated and replaced by investment and jobs tax credit components. Consequently, under current law, the technology zones tax credit equals the sum of the following: (a) the amount of real and personal property taxes paid during the tax year; (b) 10% of capital investments made, including the purchase price of depreciable, tangible personal property, and the amounts expended to acquire, construct, rehabilitate, remodel, or repair real property in a technology zone; and (c) 15% of the amount spent for the first 12 months of wages for each job created in a technology zone. These revisions to the technology zone tax credit apply retroactively, and are in effect for taxable years beginning on or after January 1, 2002.

The maximum amount of credits that can be claimed in a technology zone is $5.0 million. More detailed information on the development zones tax credit, development zone capital investment credit, and technology zones credit is provided in the Legislative Fiscal Bureau's informational paper entitled, "Corporate Income / Franchise Tax."

Dairy Investment Credit. 2003 Act 135 created a dairy investment credit for taxable years beginning on or after January 1, 2004, and before January 1, 2010. The credit is equal to 10% of the amount paid during the tax year for dairy farm modernization or expansion related to the operation of the claimant's dairy farm. In aggregate, a claimant may claim a maximum of $50,000 in dairy investment credits. Unused credits may be carried forward up to 15 years to offset future tax liabilities.

Dairy farm modernization or expansion means the construction, improvement, or acquisition of buildings or facilities, or the acquisition of equipment for dairy animal housing, confinement, animal feeding, milk production, or waste management.

Claim of Right Credit. A credit is provided if a taxpayer must repay income on which taxes were paid in the prior tax year. The credit may be claimed if the income repaid is greater than $3,000 and the repayment amount is not subtracted from AGI or used in calculating the itemized deduction tax credit.

Minimum Tax

The alternative minimum tax (AMT) is a means to ensure that at least a minimum amount of income tax is paid by individuals who have a large tax savings from the use of certain tax deductions and exemptions that are typically claimed by only higher-income taxpayers. A taxpayer's AMT is calculated by first determining alternative minimum taxable income (AMTI), subtracting any allowable exemption, and applying the AMT rate. The base for computing AMTI is regular taxable income, to which tax preference items are added (or recaptured). An exemption is provided to taxpayers with an AMTI below specified amounts and varies by filing status. Finally, the taxpayer's AMT liability is compared to their regular tax liability. If the AMT liability exceeds the regular tax amount, an AMT is owed equal to the difference.

For tax year 2004, tax preference items for federal and state tax purposes include: (a) certain depletion deductions; (b) certain excess intangible drilling costs; (c) the excess of a financial institution's deduction for reasonable bad debt; (d) tax-exempt interest on specific private activity bonds; (e) the excess of the accelerated deprecation deduction over the deduction allowed for straight-line depreciation for certain types of property; and (f) certain amortization costs associated with pollution control facilities placed in service before 1987.

As stated above, certain amounts pertaining to the accelerated depreciation deduction are treated as a tax preference item. However, federal law does not require the first-year depreciation bonus to be included in AMTI. At the state level, capital gain income that is excluded from Wisconsin's regular tax is not treated as a tax preference item and, as a result, is not included as part of Wisconsin AMTI.

The state AMTI is generally based on federal AMTI and exemption amounts, adjusted for differences in state and federal law. However, Wisconsin has not conformed to federal changes in the exemption amounts adopted after 2002. (Under the Jobs and Growth Tax Relief Reconciliation Act of 2003, the federal exemption amounts were increased for tax years 2003 and 2004. The Working Families Tax Relief Act of 2004 further extended the increased exemption amounts through 2005). Instead, Wisconsin's exemption amount is based on changes in federal law provided under the 2001 Economic Growth and Tax Relief Reconciliation Act (EGTRRA), which increased the exemption amounts for tax years 2001 through 2004. The exemption levels under EGTRRA, however, are lower than the levels provided under current federal law through 2005. Under current federal and state laws, starting in 2006, the exemption levels return to those in place at both the federal and state levels prior to 2001.

Federal tax preferences that do not reflect a tax benefit under the regular state income tax are not treated as tax preferences for Wisconsin AMT purposes. A tax rate of 6.5% is applied to state AMTI after adjusting for the allowed exemption amount. The state minimum tax is owed only if AMT liability exceeds the liability under the regular state income tax.

Summary of Features of the Individual Income Tax

The major features in the calculation of federal and Wisconsin individual income taxes for 2004 are illustrated in Chart 1. Chart 1 shows the steps necessary to determine tax liability under federal and state law including the following major components: adjusted gross income, deductions, exemptions, tax rates and brackets, tax credits, and the alternative minimum tax.

Differences Between State and Federal Income Tax Structures

The federal income tax structure differs from Wisconsin's tax structure in several ways. The major differences in the definition of AGI have been described previously. This section highlights additional areas of difference between federal and state income taxes.

The treatment of itemized deductions varies significantly between the two systems. Federal law permits the deduction of payments of state and local income and property taxes as itemized deductions. In addition, under the American Jobs Creation Act of 2004, which was signed into law on October 18, 2004, taxpayers may elect, in lieu of the federal itemized deduction for state and local income taxes, to take an itemized deduction for their state and local general sales tax, effective for taxable years beginning after December 31, 2003. A taxpayer electing to deduct sales taxes may either deduct actual sales tax paid, as evidenced by accumulated receipts, or an amount based on income as determined by the Internal Revenue Service.

In comparison, Wisconsin does not provide a deduction or credit for state and local income taxes or for sales taxes paid. In addition, rather than a deduction for property taxes, Wisconsin provides a property tax/rent credit for residential property taxes or rent constituting property taxes paid on a principal residence. Federal law allows other itemized deductions such as interest expenses, charitable contributions, and medical and dental expenses. The state includes these items as part of the 5% itemized deduction credit. However, the state's credit is not provided for miscellaneous deductions, which are allowed under federal law.

In place of the flat standard deduction amounts of $4,850 for single taxpayers, $9,700 for married couples filing jointly, $4,850 for married-separate filers, and $7,150 for head-of-household filers under federal law in 2004, a sliding scale standard deduction is used under state law. The maximum deduction is set at $7,950 for single taxpayers, $14,330 for married couples filing jointly, $6,810 for married-separate filers, and $10,270 for head-of-household filers, and phases out for higher-income taxpayers. If a person is blind or age 65 or over, the federal standard deduction is increased by $950 ($1,200 if single). [No state adjustment is provided for a taxpayer who is blind. A state adjustment for persons age 65 or over is part of the state personal exemption, rather than the standard deduction as is done at the federal level.]

Federal and state laws provide personal exemptions to account for differences in family sizes between taxpayers. The federal personal exemption is $3,100 for each taxpayer, spouse, and dependent in 2004. Wisconsin's personal exemption is $700 (plus an additional $250 for persons age 65 or over).

Under federal law, separate tax bracket schedules are used to differentiate the tax liabilities of single persons, married persons filing jointly, married persons filing separately, and heads of households. Wisconsin law, however, does not provide a separate tax bracket schedule for head-of-household filers.

For tax year 2004, federal tax rates are 10%, 15%, 25%, 28%, 33%, and 35%. Wisconsin's marginal tax rates are 4.60%, 6.15%, 6.50%, and 6.75% in 2004, although the effective top marginal tax rate may exceed this statutory level for taxpayers in the phase-out range of the state's sliding scale standard deduction.

CHART 1
Major Components in the Calculation of Federal and Wisconsin Income Taxes
Tax Year 2004

Computation

Result

Compute Gross Income

- Wages, salaries, tips
- Interest and dividends
- Alimony received
- Business and capital gains / losses
- Pensions and annuities
- Rents, royalties, partnership income
- Farm income and losses
- Unemployment compensation
- Portion of social security

Gross Income

Subtract from Gross Income

- Self-employment tax and health insurance
- Contributions to IRA / Keogh / MSAs / HSAs
- Student loan interest
- Alimony paid
- Penalty on early withdrawal of savings
- Job-related moving expenses
- Higher education expenses
- Educator expenses

Federal AGI → **Apply Wisconsin Modifications** → **Wisconsin AGI**

Add to federal AGI:
- State bond interest
- Farm and farm investment losses
- Expenses for moves out of Wisconsin
- Bonus depreciation
- Amounts subtracted for federal higher education and educator deductions
- HSA and certain MSA contributions and earnings

Subtract from federal AGI:
- Federal bond interest
- Certain public employee pension benefits
- Capital gains exclusions
- Unemployment compensation
- Disability income
- Social security benefits
- Adoption expenses
- EdVest college savings program contributions
- Long-term care insurance premiums
- Higher education tuition expenses
- Organ donor expenses

Federal	Wisconsin
Exemptions & Deductions	Standard Deduction & Personal Exemptions
Federal Taxable Income	Wisconsin Taxable Income
Tax Rates 10% to 35%	Tax Rates 4.60% to 6.75%
Federal Gross Tax	Wisconsin Gross Tax
Tax Credits	Tax Credits
Federal Net Tax	Wisconsin Net Tax
Minimum Tax	Minimum Tax
Federal Total Tax	Wisconsin Total Tax

Federal Tax Credits:
- Elderly & disabled
- Child & dependent care
- Earned income
- Business tax
- Foreign tax
- Prior year minimum tax
- Mortgage interest
- Adoption expenses
- $1,000 per child
- Education
- Retirement savings contributions

Wisconsin Tax Credits:
- Itemized deduction
- Property tax / rent
- Working families
- Married couple *
- Military income
- Homestead *
- Farmland preservation *
- Claim of right *
- Earned income *
- Historic rehabilitation
- Farmland tax relief *
- Sales tax on fuel and electricity used in manufacturing*
- Development zones*
- Development zone capital investment*
- Technology zones*
- Dairy investment*

*These credits are applied after the minimum tax. The homestead, farmland preservation, farmland tax relief, earned income, and claim of rights credits are refundable if the credit exceeds taxes due.

Finally, at the federal level, capital gains on assets held for more than 12 months and sold after May 5, 2003, are generally taxed at a maximum marginal rate of 15% (5% for taxpayers in the 10% or 15% marginal tax bracket). Effective January 1, 2003, qualified dividends are subject to the same maximum marginal tax rates as those in effect for capital gains. For sales of capital assets after December 31, 2007, gains that are currently subject to a maximum rate of 5% will be exempt from tax. These maximum capital gains rates also apply when computing income tax under the alternative minimum tax. A higher capital gains rate of 28% applies for certain collectibles, and a rate of 25% applies for gain related to certain unrecaptured depreciation expenses.

Wisconsin does not provide a lower maximum tax rate for capital gains or dividends. However, state law does provide an income tax exclusion for 60% of capital gains on assets held for more than one year from taxation. In addition, gains realized on the sale of a business to a family member and the sale of qualifying small business stock are completely excluded from taxation.

Historical Tax Collections Information

The annual amount of individual income taxes collected since 1993-94, the percentage change from year to year, and the share that individual income taxes comprised of state general fund tax revenues are shown in Table 5. As Table 5 indicates, individual income tax revenues rose from $3.64 billion in 1993-94 to $5.96 billion in 1999-00. Income tax collections decreased over the next two years, to $5.16 billion in 2000-01 and $4.98 billion in 2001-02. These decreases are primarily related to tax cuts adopted under the 1999-01 biennial budget act. However, tax collections in 2001-02 were also affected by the economic downturn. Income tax revenues increased by 1.5% in 2002-03 to $5.05 billion, and by 4.5% in 2003-04 to $5.28 billion. The growth in income tax collections in the last two years is a result of economic factors, rather than tax law changes.

Individual income tax collections comprised at least 50% of total general fund tax collections from 1994-95 through 2000-01. However, as shown in Table 5, income taxes have been slightly less than 50% of general fund tax collections since 2001-02.

Table 5: Individual Income Tax Collections ($ in Millions)

Fiscal Year	Individual Income Tax	% Change	Percent of State General Fund Tax Collections
1993-94	$3,638.7	5.6%	49.9%
1994-95	3,932.9	8.1	50.4
1995-96	4,183.6	6.4	50.8
1996-97	4,558.3	9.0	51.7
1997-98	5,047.5	10.7	53.0
1998-99	5,162.2	2.3	51.9
1999-00	5,962.0	15.5	54.5
2000-01	5,156.6	-13.5	51.2
2001-02	4,979.7	-3.4	49.7
2002-03	5,052.0	1.5	49.5
2003-04	5,277.1	4.5	49.1

In 2003, 43 states had a state individual income tax. For information on the provisions of individual income taxes in other states, please refer to the Legislative Fiscal Bureau's informational paper entitled, "Individual Income Tax Provisions in the States."

Distributional Information for Tax Year 2003

Aggregate data from individual income tax returns filed for tax year 2003 are shown in Tables 6 through 11. Table 6 presents summary statistics on the count of returns and taxfilers, the income, deductions, and tax credits claimed, and the amount of tax paid. The aggregate data shown in these tables differs from the collections data in Table 5, because it reflects activity in tax year 2003, rather than for the state's fiscal year 2003-04.

The distribution of taxfilers by adjusted gross income class is shown in Table 7. For tax year 2003, 2.7 million taxfilers reported $109.9 billion in Wisconsin AGI. Of these taxfilers, approximately 1.9 million had a state individual income tax liability totaling $4.85 billion. The average tax liability was $2,504.

Table 6: Aggregate Data on State Individual Income Tax Returns (Tax Year 2003)

Count of Returns	2,702,716
Count of Returns with Minimum Tax	4,555
Amount of Wisconsin Adjusted Gross Income	$109,876,612,910
Amount of Used Deductions	13,529,864,104
Amount of Used Exemptions	3,106,721,106
Amount of Taxable Income	93,807,655,556
Amount of Gross Tax	5,734,515,236
Amount of Used Credits	887,888,627
Amount of Net Tax Before Minimum Tax	4,846,626,609
Amount of Minimum Tax	3,922,871
Amount of Net Tax	4,850,549,480
Tax Rates:	
Average Tax Rate (Net tax divided by taxable income)	5.17%
Average Effective Tax Rate (Net tax divided by AGI)	4.41%

Source: 2003 Individual Income Tax Aggregate Data

Table 8 presents information on the distribution by adjusted gross income class of gross tax liability, used credit amounts, the minimum tax, and the net tax liability. Gross tax liability of approximately $5.73 billion was reduced by $887.9 million of used tax credits. After adding back $3.9 million in liability from the minimum tax, the net tax liability was $4.85 billion.

The approximate distribution of selected used credits by type of credit is presented in Table 9. The used credit amounts are shown because these credits are nonrefundable (the amount of the tax credit may not exceed tax liability). The property tax/rent credit was the largest at $354.4 million. Other tax credits shown in the table include: the married couple tax credit of $263.7 million; and the itemized deduction credit at a cost of $257.4 million.

Table 7: Distribution of Wisconsin Adjusted Gross Income and Net Tax Liability by Adjusted Gross Income Class (Tax Year 2003)

	Adjusted Gross Income					Net Tax Liability (Including Alternative Minimum Tax)				
Total Adjusted Gross Income	Count	% of Count	Amount	% of Total	Average Amount	Count	% of Count	Amount	% of Total	Average Amount
Under $5,000	443,824	16.42%	$169,626,302	0.15%	$382	36,133	1.87%	$2,787,775	0.05%	$77
5,000-10,000	260,607	9.64	1,927,499,101	1.75	7,396	50,246	2.59	5,609,359	0.11	112
10,000-15,000	211,679	7.83	2,633,373,650	2.40	12,440	123,380	6.37	22,111,956	0.46	179
15,000-20,000	195,979	7.25	3,425,016,333	3.12	17,476	152,289	7.86	54,063,091	1.11	355
20,000-25,000	181,726	6.72	4,082,057,237	3.72	22,463	170,190	8.79	98,728,057	2.04	580
25,000-30,000	163,940	6.07	4,503,120,821	4.10	27,468	161,742	8.35	138,818,306	2.86	858
30,000-40,000	271,884	10.06	9,457,568,052	8.61	34,785	270,918	13.99	348,284,394	7.19	1,286
40,000-60,000	399,841	14.79	19,751,574,868	17.98	49,399	399,328	20.62	823,478,853	16.99	2,062
60,000-80,000	264,346	9.78	18,268,762,726	16.63	69,109	264,271	13.65	841,627,831	17.36	3,185
80,000-100,000	139,585	5.16	12,395,031,442	11.28	88,799	139,569	7.21	611,499,343	12.61	4,381
100,000-150,000	109,191	4.04	12,902,665,998	11.74	118,166	109,168	5.64	675,529,079	13.93	6,188
150,000-200,000	26,829	0.99	4,577,017,225	4.17	170,600	26,824	1.38	255,015,596	5.26	9,507
Over 200,000	33,285	1.23	15,783,299,155	14.36	474,187	33,272	1.72	972,995,840	20.03	29,244
TOTALS	2,702,716	100.00%	$109,876,612,910	100.00%	$40,654	1,937,330	100.02%	$4,850,549,480	100.00%	$2,504

Table 8: Distribution of Wisconsin Gross Tax Liability, Used Credits, and Net Tax Liability by Adjusted Gross Income Class (Tax Year 2003)

Total Adjusted	Gross Tax Liability		Used Credit Amounts		Minimum Tax Liability		Net Tax Liability	
Gross Income	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
Under $5,000	$2,651,132	0.05%	$170,190	0.02%	$306,833	7.82%	$2,787,775	0.06%
5,000-10,000	6,890,290	0.12	1,399,697	0.16	118,766	3.03	5,609,359	0.12
10,000-15,000	33,018,823	0.58	10,959,311	1.23	52,444	1.34	22,111,956	0.46
15,000-20,000	73,603,035	1.28	19,594,176	2.21	54,232	1.38	54,063,091	1.11
20,000-25,000	125,290,479	2.18	26,626,318	3.00	63,896	1.63	98,728,057	2.04
25,000-30,000	168,483,794	2.94	29,705,945	3.35	40,457	1.03	138,818,306	2.86
30,000-40,000	415,336,616	7.24	67,097,894	7.56	45,672	1.16	348,284,394	7.18
40,000-60,000	1,000,470,619	17.45	177,165,824	19.95	174,058	4.44	823,478,853	16.98
60,000-80,000	1,036,015,913	18.07	194,507,597	21.91	119,515	3.05	841,627,831	17.35
80,000-100,000	749,574,342	13.07	138,180,807	15.56	105,808	2.70	611,499,343	12.61
100,000-150,000	796,431,596	13.89	121,124,793	13.64	222,276	5.67	675,529,079	13.93
150,000-200,000	287,808,228	5.02	33,055,677	3.72	263,045	6.71	255,015,596	5.26
Over 200,000	1,038,940,369	18.12	68,300,398	7.69	2,355,869	60.05	972,995,840	20.06
TOTALS	$5,734,515,236	100.00%	$887,888,627	100.00%	$3,922,871	100.00%	$4,850,549,480	100.00%

Table 9: Distribution of Selected Used Credits by Type of Credit by Adjusted Gross Income Class (Tax Year 2003)

Total Adjusted	Itemized Deduction		Married Couple		Property Tax/Rent	
Gross Income	Amount	Percent	Amount	Percent	Amount	Percent
Under $5,000	$98,799	0.04%	$16,427	0.01%	$44,899	0.01%
5,000-10,000	213,703	0.08	37,522	0.01	934,440	0.26
10,000-15,000	732,376	0.28	79,048	0.03	9,960,809	2.81
15,000-20,000	1,318,635	0.51	284,531	0.11	17,497,250	4.94
20,000-25,000	1,803,892	0.70	1,724,054	0.65	22,962,845	6.48
25,000-30,000	2,519,067	0.98	3,598,009	1.36	23,485,129	6.63
30,000-40,000	7,383,929	2.87	13,697,412	5.19	45,870,501	12.94
40,000-60,000	27,063,862	10.52	65,540,516	24.85	84,323,847	23.80
60,000-80,000	49,476,526	19.22	79,412,712	30.12	65,389,830	18.45
80,000-100,000	52,301,729	20.32	48,381,893	18.35	37,277,728	10.52
100,000-150,000	53,706,426	20.87	36,760,258	13.94	30,201,214	8.52
150,000-200,000	17,674,622	6.87	7,438,360	2.82	7,450,321	2.10
Over 200,000	43,072,966	16.74	6,722,636	2.55	8,963,764	2.53
TOTALS	$257,366,532	100.00%	$263,693,378	100.00%	$354,362,577	100.00%

Table 10 identifies the distribution of minimum tax liability by adjusted gross income class. The $3.9 million minimum tax in 2003 was paid by 4,555 taxpayers. The average minimum tax liability was $861.

The distribution of taxpayers by filing status and amount of gross income is shown in Table 11. Based on the 2003 aggregate data, single taxpayers (including single dependents and heads-of-households) comprised 58.2% of taxpayers who filed in 2003. Approximately 41.2% of taxpayers filed married-joint returns in 2003 and about 0.6% filed married-separate returns.

Table 10: Distribution of Minimum Tax Liability by Adjusted Gross Income Class (Tax Year 2003)

Total Adjusted Gross Income	Count of Taxpayers	Percent	Amount	Percent	Average Amount
Under $5,000	1,054	23.14%	$306,833	7.82%	$291
5,000-10,000	269	5.91	118,766	3.03	442
10,000-15,000	172	3.78	52,444	1.34	305
15,000-20,000	155	3.40	54,232	1.38	350
20,000-25,000	90	1.98	63,896	1.63	710
25,000-30,000	77	1.69	40,457	1.03	525
30,000-40,000	99	2.17	45,672	1.16	461
40,000-60,000	168	3.69	174,058	4.44	1,036
60,000-80,000	121	2.66	119,515	3.05	988
80,000-100,000	65	1.43	105,808	2.70	1,628
100,000-150,000	140	3.07	222,276	5.67	1,588
150,000-200,000	136	2.99	263,045	6.71	1,934
Over 200,000	2,009	44.11	2,355,869	60.05	1,173
TOTALS	4,555	100.00%	$3,922,871	100.00%	$861

Table 11: Distribution of Taxpayers by Filing Status and by Adjusted Gross Income Class (Tax Year 2003)

Total Adjusted	Total		Married Filing Jointly		Single		Single, Claimed as Dependent by Other		Head-of-Household		Married Filing Separately	
Gross Income	Count	Percent	Count	Percent	Count	Percent	Count	Percent	Count	Percent	Count	Percent
Under $5,000	443,824	16.42%	40,952	3.68%	245,990	22.40%	135,220	56.20%	19,623	8.37%	2,039	12.71%
5,000-10,000	260,607	9.64	30,638	2.75	128,940	11.74	75,017	31.18	24,260	10.35	1,752	10.92
10,000-15,000	211,679	7.83	42,290	3.80	118,423	10.78	21,371	8.88	27,681	11.81	1,914	11.93
15,000-20,000	195,979	7.25	48,738	4.38	108,796	9.91	5,769	2.40	30,717	13.10	1,959	12.21
20,000-25,000	181,726	6.72	46,334	4.16	101,370	9.23	1,520	0.63	30,771	13.13	1,731	10.79
25,000-30,000	163,940	6.07	45,747	4.11	90,339	8.23	611	0.25	25,789	11.00	1,454	9.06
30,000-40,000	271,884	10.06	98,195	8.82	137,305	12.50	448	0.19	33,673	14.37	2,263	14.10
40,000-60,000	399,841	14.79	250,876	22.53	117,555	10.71	346	0.14	29,159	12.44	1,905	11.87
60,000-80,000	264,346	9.78	226,081	20.30	29,512	2.69	105	0.04	8,102	3.46	546	3.40
80,000-100,000	139,585	5.16	128,267	11.52	8,849	0.81	72	0.03	2,193	0.94	204	1.27
100,000-150,000	109,191	4.04	101,206	9.09	6,301	0.57	41	0.02	1,497	0.64	146	0.91
150,000-200,000	26,829	0.99	24,417	2.19	1,942	0.18	14	0.01	420	0.18	36	0.22
Over 200,000	33,285	1.23	29,867	2.68	2,743	0.25	63	0.03	516	0.22	96	0.60
TOTALS	2,702,716	100.00%	1,113,608	100.00%	1,098,065	100.00%	240,597	100.00%	234,401	100.00%	16,045	100.00%

APPENDIX

History of the Wisconsin Individual Income Tax

Development of the Tax Structure

In 1911, Wisconsin became the first state to adopt an individual income tax. Marginal tax rates ranged from 1% on the first $1,000 of taxable income up to 6% on taxable income in excess of $12,000. From 1911 to 1978, tax rates gradually increased and additional brackets were added to the tax structure. Since 1979, indexing of the individual income tax brackets expanded the bracket amounts in 1980, 1981, and 1982, while holding the top marginal tax rate at 10%. However, indexing adjustments were suspended for tax years 1983 through 1985.

The marital property reform act (1983 Wisconsin Act 186) and the 1985-87 biennial budget (1985 Wisconsin Act 29) made further changes in the state tax structure, effective in 1986. The marital property reform act established a joint income tax return structure to reflect the concept of taxing spouses as a single economic unit. In Act 29, the number of tax brackets was reduced and the top marginal rate was lowered to 7.9%.

The 1987-89 biennial budget (1987 Wisconsin Act 27) further reduced the number of tax brackets from four to three, lowered the top marginal rate to 6.93%, and deleted indexing.

The tax rates were reduced through two separate pieces of legislation during the 1997-99 legislative session so that the top tax rate was 6.77% beginning with the 1998 tax year. The 1997-99 biennial budget (1997 Wisconsin Act 27) also reintroduced indexing, beginning with tax year 1999.

The number of tax brackets was increased from three to four under the 1999-01 biennial budget (1999 Wisconsin Act 9) and the tax rates were reduced so that the top tax rate was 6.75% beginning in 2000. Act 9 also reduced the first three tax rates further for tax year 2001 and thereafter (the top rate remained at 6.75%).

In 1911, personal exemptions, which were deducted directly from income, totaled $800 for an individual, $1,200 for a married couple, and $200 for each dependent. With the conversion to credits in 1927, the personal exemption credit along with the standard deduction and itemized deductions determined the level of income at which a family began to pay taxes. In 1977, the low-income allowance and dependent deduction were provided to assure that low-income taxpayers would not be required to file a Wisconsin tax return if they were exempt from filing a federal tax return. Beginning in 1986, a sliding scale standard deduction based on filing status and income level replaced the standard deduction and low-income allowance. Finally, the working families tax credit was created beginning with the 1998 tax year.

Starting with tax year 2000, Wisconsin eliminated the dependent and senior credits and returned to personal exemptions, with an additional exemption being provided for taxpayers age 65 or over.

Table 12 charts the historical development of the Wisconsin tax rate and bracket structure. Changes in the personal exemption/credit, the standard deduction, low-income allowance, and working families credit are shown in Table 13.

Table 12: Historical Levels of Wisconsin's Individual Income Tax Rate and Bracket Structure

Taxable Income Bracket	1911-31	1932-52	1953-61	1962	1963-64	1965	1966-70	1971	1972-78
1st $1,000	1.00%	1.00%	1.00%	2.00%	2.30%	2.50%	2.70%	2.80%	3.10%
2nd 1,000	1.25	1.25	1.25	2.25	2.55	2.75	2.95	3.10	3.40
3rd 1,000	1.50	1.50	1.50	2.50	2.80	3.00	3.20	3.30	3.60
4th 1,000	1.75	2.00	2.50	3.50	3.80	4.00	4.20	4.30	4.80
5th 1,000	2.00	2.50	3.00	4.00	4.30	4.50	4.70	4.90	5.40
6th 1,000	2.50	3.00	3.50	4.50	4.80	5.00	5.20	5.40	5.90
7th 1,000	3.00	3.50	4.00	5.00	5.30	5.50	5.70	5.90	6.50
8th 1,000	3.50	4.00	5.00	6.00	6.30	6.50	6.70	6.90	7.60
9th 1,000	4.00	4.50	5.50	6.50	6.80	7.00	7.20	7.50	8.20
10th 1,000	4.50	5.00	6.00	7.00	7.30	7.50	7.70	8.00	8.80
11th 1,000	5.00	5.50	6.50	7.50	7.80	8.00	8.20	8.50	9.30
12th 1,000	5.50	6.00	7.00	8.00	8.30	8.50	8.70	9.00	9.90
13th 1,000	6.00	7.00	7.50	8.50	8.80	9.00	9.20	9.50	10.50
14th 1,000	6.00	7.00	8.00	9.00	9.30	9.50	9.70	10.00	11.10
15th 1,000	6.00	7.00	8.50	9.50	9.80	10.00	10.00	10.40	11.40
Over 15,000	6.00	7.00	8.50	10.00	10.00	10.00	10.00	10.40	11.40

1979 to 1985

Taxable Income Brackets				Marginal Tax Rates
1979	1980	1981	1982-85	1979 to 1985
$0 - $3,000	$0 - $3,300	$0 - $3,600	$0 - $3,900	3.4%
3,000 - 6,000	3,300 - 6,600	3,600 - 7,200	3,900 - 7,700	5.2
6,000 - 9,000	6,600 - 9,900	7,200 - 10,900	7,700 - 11,700	7.0
9,000 - 12,000	9,900 - 13,200	10,900 - 14,500	11,700 - 15,500	8.2
12,000 - 15,000	13,200 - 16,500	14,500 - 18,100	15,500 - 19,400	8.7
15,000 - 20,000	16,500 - 22,000	18,100 - 24,100	19,400 - 25,800	9.1
20,000 - 40,000	22,000 - 44,000	24,100 - 48,200	25,800 - 51,600	9.5
Over 40,000	Over 44,000	Over 48,200	Over 51,600	10.0

1986 to 1998

Taxable Income Brackets			Marginal Tax Rates		
Single	Married, Joint	Married, Separate	1986	1987-1997	1998
$0 - $7,500	$0 - $10,000	$0 - $5,000	5.0%	4.90%	4.77%
7,500 - 15,000	10,000 - 20,000	5,000 - 10,000	6.6	6.55	6.37
15,000 - 30,000	20,000 - 40,000	10,000 - 20,000	7.5	6.93	6.77
Over 30,000	Over 40,000	Over 20,000	7.9	6.93	6.77

1999

Taxable Income Brackets			Marginal
Single	Married, Joint	Married, Separate	Tax Rates
$0 - $7,620	$0 - $10,160	$0 - $5,080	4.77%
7,620 - 15,240	10,160 - 20,320	5,080 - 10,160	6.37
Over 15,240	Over 20,320	Over 10,160	6.77

2000

Taxable Income Brackets			Marginal
Single	Married, Joint	Married, Separate	Tax Rates
$0 - $7,790	$0 - $10,390	$0 - $5,200	4.73%
7,790 - 15,590	10,390 - 20,780	5,200 - 10,390	6.33
15,590 - 116,890	20,780 - 155,850	10,390 - 77,930	6.55
Over 116,890	Over 155,850	Over 77,930	6.75

Table 12: Historical Levels of Wisconsin's Individual Income Tax Rate and Bracket Structure (continued)

2001

Taxable Income Brackets			Marginal
Single	Married, Joint	Married, Separate	Tax Rates
$0 - $8,060	$0 - $10,750	$0 - $5,380	4.60%
8,060 - 16,130	10,750 - 21,500	5,380 - 10,750	6.15
16,130 - 116,330	21,500 - 155,100	10,750 - 77,550	6.50
Over 116,330	Over 155,100	Over 77,550	6.75

2002

Taxable Income Brackets			Marginal
Single	Married, Joint	Married, Separate	Tax Rates
$0 - $8,280	$0 - $11,040	$0 - $5,520	4.60%
8,280 - 16,560	11,040 - 22,080	5,520 - 11,040	6.15
16,560 - 124,200	22,080 - 165,600	11,040 - 82,800	6.50
Over 124,200	Over 165,600	Over 82,800	6.75

2003

Taxable Income Brackets			Marginal
Single	Married, Joint	Married, Separate	Tax Rates
$0 - $8,430	$0 - $11,240	$0 - $5,620	4.60%
8,430 - 16,860	11,240 - 22,480	5,620 - 11,240	6.15
16,860 - 126,420	22,480 - 168,560	11,240 - 84,280	6.50
Over 126,420	Over 168,560	Over 84,280	6.75

2004

Taxable Income Brackets			Marginal
Single	Married, Joint	Married, Separate	Tax Rates
$0 - $8,610	$0 - $11,480	$0 - $5,740	4.60%
8,610 - 17,220	11,480 - 22,960	5,740 - 11,480	6.15
17,220 - 129,150	22,960 - 172,200	11,480 - 86,100	6.50
Over 129,150	Over 172,200	Over 86,100	6.75

Table 13: Historic Levels of Personal Exemptions/Credits, Standard Deduction, Low Income Allowance and Working Families Credit

Personal Exemptions/Credits

	1911 Exemption	1925 Exemption	1927 Credit	1931 Credit	1953 Credit	1965 Credit	1971 Credit	1972 Credit	1974 Credit	1986a Credit	2000 Exemption	2001 & Thereafter Exemption
Individual	$800	$800	$8.00	$8.00	$7	$10	$12	$15	$20	$-0-	$600	$700
Married-Joint	1,200	1,600	17.50	17.50	14	20	24	30	40	-0-	1,200	1,400
Dependent	200	300	3.00	4.00	7	10	12	15	20	50	600	700
65 and Over	800	800	8.00	7.00	7	15	17	20	25	25	200	250

Standard Deduction and Low Income Allowance

	1911	1949	1962	1965	1971	1972	1973	1977	1979 to 1985
Minimum	-0-	-0-	-0-	$300	$475	$1,000	$1,300	$1,300 to $5,700b	$1,300 to $5,700b
Maximum	-0-	$450	$1,000	1,000	1,250	2,000	2,000	2,000	Single: $2,300; Married: $3,400
Percentage of Income	-0-	9%	10%	10%	11%	14%	15%	15%	-0- (Formula Based)

Sliding Scale Standard Deduction

	1986			1987			1988 to 1993		
	Single	Married-J	Married-S	Single	Married-J	Married-S	Single	Married-J	Married-S
Maximum Standard Deduction	$5,200	$7,200	$5,200	$5,200	$7,560	$3,590	$5,200	$8,900	$4,230
Phase-Out Income	7,500	10,000	4,750	7,500	10,000	4,750	7,500	10,000	4,750
Phase-Out Rate	12.0%	10.667%	10.667%	12.0%	12.5%	12.5%	12.0%	19.778%	19.778%
Maximum Income	50,830	77,500	36,810	50,830	70,480	33,470	50,830	55,000	26,140

	1994 to 1998				1999			
	Single	Married-J	Married-S	Head-of-Household	Single	Married-J	Married-S	Head-of-Household
Maximum Standard Deduction	$5,200	$8,900	$4,230	$7,040	$5,280	$9,040	$4,300	$7,150
Phase-Out Income	7,500	10,000	4,750	7,500	7,620	10,160	4,830	7,620
Phase-Out Rate	12.0%	19.778%	19.778%	22.515%	12.0%	19.778%	19.778%	22.515%
Maximum Income	50,830	55,000	26,140	25,000c	51,620	55,867	26,571	25,404c

	2000				2001			
	Single	Married-J	Married-S	Head-of-Household	Single	Married-J	Married-S	Head-of-Household
Maximum Standard Deduction	$7,200	$12,970	$6,160	$9,300	$7,440	$13,410	$6,370	$9,620
Phase-Out Income	10,380	14,570	6,920	10,380	10,730	15,070	7,160	10,730
Phase-Out Rate	12.0%	19.778%	19.778%	22.515%	12.0%	19.778%	19.778%	22.515%
Maximum Income	70,380	80,150	38,070	30,350c	72,730	82,872	39,367	31,460c

Table 13: Historic Levels of Personal Exemptions/Credits, Standard Deduction, Low Income Allowance and Working Families Credit (continued)

	2002			
	Single	Married-J	Married-S	Head-of-Household
Maximum Standard Deduction	$7,650	$13,770	$6,540	$9,880
Phase-Out Income	11,020	15,470	7,350	11,020
Phase-Out Rate	12.0%	19.778%	19.778%	22.515%
Maximum Income	74,770	85,092	40,417	32,230c

	Working Families Credit -- 1998 and Thereafter			
	Single	Married-J	Married-S	Head-of-Household
Phase-Out Income	$9,000	$18,000	$9,000	$9,000
Maximum Income	10,000	19,000	10,000	10,000

	2003			
	Single	Married-J	Married-S	Head-of-Household
Maximum Standard Deduction	$7,790	$14,030	$6,660	$10,060
Phase-Out Income	11,220	15,760	7,480	11,220
Phase-Out Rate	12.0%	19.778%	19.778%	22.515%
Maximum Income	76,136	86,697	41,154	32,809c

2004			
Single	Married-J	Married-S	Head-of-Household
$7,950	$14,330	$6,810	$10,270
11,470	16,100	7,640	11,470
12.0%	19.778%	19.778%	22.515%
77,720	88,554	42,072	33,534c

a The $25 senior credit was phased out for higher income taxpayers for tax years 1997 through 1999.
b The low income allowance and dependent deduction varied depending upon age, marital status, number of dependents, and income level and could have exceeded the maximum.
c Once head-of-household taxfilers reach the maximum income amount, the single standard deduction is claimed.

Income Tax Surcharges

Between 1918 and 1962, Wisconsin had a series of individual income tax surcharges for a number of purposes including: soldiers' cash bonuses; education, retirement old-age assistance and health purposes; and emergency relief. The level of the surtax rose to a maximum of 60% of the normal tax between 1935 and 1942, but was substantially lower during nonwar periods. In 1983, the state imposed a 10% surtax on 1983 calendar year tax liabilities to compensate for slower state revenue growth during a recession. Table 14 shows the type and level of the various surcharges adopted over time on the Wisconsin individual income tax.

Chronology of Modifications Since 1979

Chapter 1, Laws of 1979, significantly reduced the level of individual income tax collections in Wisconsin and recast the state tax structure through provisions to increase the standard deduction, repeal itemized deductions for state and local taxes, widen and index tax brackets and lower tax rates, and provide a property tax/rent credit.

In Chapter 20, Laws of 1981, the state's exclusion for net long-term capital gains was phased in over a three-year period beginning in tax year 1982: a 20% exclusion was provided in 1982, 40% in 1983, and 60% in 1984 and thereafter. The federal capital gains exclusion was repealed in the Tax Reform Act of 1986. However, the 60% state exclusion was retained under 1987 Wisconsin Act 27.

The conversion to joint tax returns for state tax purposes was adopted in 1983 Wisconsin Act 186.

In 1985 Wisconsin Act 29, individual income tax revenues were reduced by modifying the base of income subject to tax, the tax rates and brackets, the allowable tax credits and deductions, and the state minimum tax. Further changes were made to the tax base, rates and brackets, and minimum tax in 1987 Wisconsin Act 27.

In 1989 Wisconsin Act 31, the married couple credit was reduced and the property tax/rent credit was raised. Act 31 also provided one-time increases to the 1987 and 1988 school property tax/rent credits, paid to taxpayers in the form of a

Table 14: Individual Income Tax Surcharges

Tax Year		
1918	1.	Soldiers' cash bonus surtax ($3,000 exempt).
1918-1922	2.	Soldiers' educational bonus surtax ($3,000 exempt-above $3,000 rates 1/6 of normal tax).
1920-1952	3.	Teachers' retirement fund surtax ($3,000 exempt-above $3,000 rates 1/6 of normal tax).
1931	4.	1932 emergency relief surtax--(on 1931 income-deductible dividends added back. Capital gains and losses eliminated. Rates same as normal tax).
1932	5.	1933 emergency relief surtax--(on 1932 income. Deductible dividends added back).
1933	6.	Surtax on 1933 deductible dividends.
1934	7.	1935 surtax on 1934 income deductible dividends added back. Losses allowable only to extent of gains.
1935-1942	8.	60% surtax, old age assistance--mothers' pensions--common school aids. Tax 60% of normal tax after deducting personal exemptions.
1947-1948	9.	Optional tax on gross receipts--not over $3,500 income.
1949-1952		--not over $5,000 income.
1949-1950	10.	25% construction and educational aids surtax. 25% of normal tax after exemptions.
1953-1961	11.	Optional tax on adjusted gross income.
1955-1958 and 1960-1961	12.	20% buildings, health, welfare, and education surtax. 20% of normal tax (including teachers' retirement fund surtax) after exemptions.
1959	13.	25% buildings, health, welfare, and education surtax. 25% of normal tax (including teachers' retirement fund surtax) after exemptions.
1983	14.	10% surtax on tax liabilities to provide revenues for general fund.

refund check that was sent out in April, 1990.

Under 1991 Wisconsin Act 39, the state earned income tax credit was modified to reflect the federal credit in effect under current law and the state's $1,200 limit on other interest under the itemized deduction credit was eliminated, beginning in 1993. A separate 25% state deduction for medical care insurance costs of self-employed persons and employees who are not covered by an employer-maintained health insurance plan was established for tax year 1993 under 1991 Act 269; this deduction increased to 50% in 1994.

In 1993 Wisconsin Act 16, the head-of-household standard deduction was created, effective in tax year 1994. In addition, the deduction for medical insurance costs of self-employed individuals was increased to 100%, effective in tax year 1995. The deduction for employees remained at 50%. The separate state treatment of social security was established in 1993 Wisconsin Act 437, which retained references to the old federal IRC for purposes of the taxation of social security benefits.

The development zones tax credits programs were expanded in 1995 Wisconsin Act 27. A number of income tax deductions and exemptions were also created during the 1995 Legislative Session: (a) Wisconsin Act 261 created a deduction for adoption expenses; (b) Wisconsin Act 371 created an exemption for income received under a viatical settlement contract; (c) Wisconsin Act 453 created a deduction for contributions to an MSA, applicable when a broad-based federal program is enacted and certified by the Secretary of DOR; and (d) Wisconsin Act 403 created an exemption for earnings realized on contributions to a college tuition prepayment program.

A number of individual income tax changes were enacted as part of the 1997-99 biennial budget (1997 Act 27). Beginning with the 1997 tax year, the senior citizen credit was limited to lower-income seniors and the state provisions related to MSAs were repealed because the federal MSA program was adopted for state tax purposes. Effective with the 1998 tax year, the income tax rates were reduced, the working families tax credit was created, the married couple credit was increased (phased-in over a four-year period), a complete capital gains exclusion for the sale of a business to a family member was provided, a deduction for premiums paid for long-term care insurance was created, a credit was allowed for sales taxes paid on fuel and electricity used in manufacturing, and the development zones tax credits were consolidated. Act 27 also made two changes that took effect with the 1999 tax year: the standard deduction and tax brackets were indexed for changes in inflation and the limits on farm and farm investment losses that may be used to offset nonfarm income were repealed for persons actively engaged in farming.

The 1997-99 budget adjustment act (1997 Wisconsin Act 237) made the following changes, beginning with the 1998 tax year: (a) created a deduction for higher education tuition expenses; (b) reduced the income tax rates; and (c) adopted federal IRC changes, including the creation of the Roth IRA. Act 237 also provided for the one-time expansion of the property tax/rent credit for tax year 1998.

A significant number of modifications were made to the individual income tax during the 1999-01 legislative session. The biennial budget (1999 Wisconsin Act 9) increased the sliding scale standard deduction, created personal exemptions, provided an exemption for Nazi persecution restitution funds, created a fourth income tax bracket, reduced the income tax rates, eliminated miscellaneous deductions from the itemized deduction credit, increased the married couple credit, created a credit for military income received while serving overseas, eliminated the dependent and senior citizen tax credits, and expanded the homestead credit. These income tax modifications took effect with the 2000 tax year, except that the homestead credit expansion first applied to claims filed for property taxes or rent paid during tax year 1999.

The PTRC was repealed beginning with the 1999 tax year as part of the sales tax rebate legislation (1999 Wisconsin Act 10). However, the credit was later restored, beginning with tax years 2000 and thereafter, in 1999 Wisconsin Act 198.

1999 Wisconsin Act 44 created a deduction for certain contributions to EdVest college savings programs.

The 2001-03 biennial budget act (Act 16) provided an income tax exemption for all federal, uniformed services retirement benefits, effective with tax year 2002. In addition, new credits were provided for development zone capital investment and technology zones.

Under the 2001-03 biennial budget adjustment act (Act 109), the deduction for contributions by parents to EdVest programs was extended to grandparents of a beneficiary. Act 109 also updated Wisconsin references to the federal IRC for most federal law changes under the Community Renewal Tax Relief Act of 2000 and under the Economic Growth and Tax Relief Reconciliation Act of 2001. The major individual income tax changes under the IRC update were the increase in contribution limits to IRAs, temporary increases in the alternative minimum tax exemption, and the expansion of a number of educational assistance programs. However, Act 109 deleted provisions under prior law that had provided for automatic updates to federal law with respect to amortization and depreciation. As a result, such provisions can only be adopted for state tax purposes after action by the Legislature, as is the case with other federal law changes.

During the 2003-05 Legislative session, several new deductions and tax credits were enacted into law under non-budget legislation. Act 85 provided that interest on WHEDA bonds issued to fund multifamily affordable housing or elderly housing projects is exempt from tax. Act 119 created an individual income tax deduction for up to $10,000 for certain expenses related to human organ donation by a live donor. Under Act 183, a tax deduction was provided for military pay to reservists mobilized by the federal government, whether or not the service is in a combat zone. Act 289 expanded the $3,000 deduction for contributions by parents and grandparents to EdVest college savings programs to include contributions by great-grandparents, aunts, and uncles of a beneficiary. The modifications related to WHEDA bond interest, organ donation, military pay, and EdVest contributions were all effective with tax year 2004.

Three new tax credits were provided during the 2003-05 Legislative session. A new dairy investment credit was provided for tax years 2004 through 2009 under Act 135. The other two new credits, an angel investment credit and an early stage seed capital credit, were created under Act 255 and are effective with tax year 2005. In addition to providing the new tax credits, the Legislature also: (a) modified the technology zone tax credit under Act 72; (b) increased the carryover period for the credit for sales tax on fuel and electricity used in manufacturing under Act 267; and (c) provided, under Act 99, that the manufacturer's sales tax credit would be eliminated and replaced with a sales tax exemption, effective for taxable years beginning on or after January 1, 2006.