Individual Income Tax

Informational Paper 2

Wisconsin Legislative Fiscal Bureau
January, 2013

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The state individual income tax is the major source of general fund tax revenue in Wisconsin. In fiscal year 2011-12, individual income tax collections totaled $7.04 billion and comprised 52% 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 2012 state and federal tax structures; (d) historical tax collections information; and (e) distributional information for tax year 2011. Finally, an appendix is attached that summarizes the historical development of the Wisconsin individual income tax, including the recent changes made during the 2011-2012 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. 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 2012. 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. Wisconsin conformed to the federal HSA provisions in 2011 Act 1.

Once gross income is determined, federal law permits the following subtractions to arrive at federal AGI: contributions to a self-employed retirement plan; individual retirement account (IRA) contributions for taxpayers below certain income levels or not covered by a pension plan; qualified student loan interest; tuition payments; qualifying health savings account and medical savings account contributions; 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 business expenses of military reservists, performing artists, and fee-basis government officials;

and certain income from qualified domestic production activities.

At the time this paper was written, Wisconsin had updated its tax laws to conform to federal provisions enacted as of December 31, 2010. However, Wisconsin does not adhere to all provisions in the Internal Revenue Code (IRC), as state law enumerates a number of exclusions. To arrive at Wisconsin AGI, Wisconsin requires the following major modifications to federal AGI:

Social Security Benefits. Since tax year 2008, social security benefits have been completely exempt from the state income tax. 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 was retained for state tax purposes, and applied for social security benefits received through tax year 2007.

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. Provisional income equals 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.

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. As required under federal law, interest from U.S. government securities is exempt from the state income tax. Interest from state and municipal obligations (including Wisconsin's) is generally taxable. However, specific state exclusions are provided for interest from: (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 the Northern Mariana Islands, or, for bonds issued after October 16, 2004, the Government of American Samoa; (h) bonds issued by local exposition districts, local professional baseball park districts, local professional football stadium districts, and local cultural arts districts; (i) WHEDA bonds, issued on or after December 11, 2003, to fund multifamily affordable housing or elderly housing projects; (j) bonds or notes issued by the Wisconsin Aerospace Authority; (k) bonds issued on or after October 27, 2007, by the Wisconsin Health and Educational Facilities Authority to fund the acquisition of information technology hardware or software, (l) WHEDA bonds or notes issued to provide loans to a public affairs network (WisconsinEye); and (m) certain conduit revenue bonds.

Deductions for Health Insurance. Under both federal and state laws, self-employed persons are entitled to deduct 100% of amounts paid for health insurance for themselves, their spouse, and their dependents (to the extent that such premiums do not exceed net earnings from self-employment).

Three additional deductions are allowed under the Wisconsin state income tax for health insurance premium payments. These deductions extend to payments by individuals: (a) who are employees not covered by employer-provided medical insurance; (b) who have no employer and no self-employment income; and (c) who have insurance through their employment but their employer does not pay the entire premium. The third deduction was being phased in over a four-year period, beginning in tax year 2008. However, 2009 Act 28 delayed the phase-in so that the deduction was limited to 10% of such premiums in tax years 2008 through 2010. Under the Act 28 provisions, the percentage increased to 25% for tax year 2011, and will increase to 45% for tax year 2012, and to 100% for tax year 2013 and thereafter.

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, 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.

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 for married couples filing separate returns when the couple lived together at some point during the year. The base amount for single taxpayers applies in the case of married taxpayers filing separate returns who lived separately for the entire year. 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.

For tax year 2009, the American Recovery and Reinvestment Act provided a one-year exclusion for up to $2,400 in unemployment benefits. Wisconsin did not conform to this provision.

Capital Gains Exclusion. A capital gains exclusion is provided for 60% of the capital gain from the sale of farm assets and 30% of the capital gain from the sale of other assets, provided those assets are held more than one year. Prior to tax year 2009, a 60% exclusion was provided relative to all assets held more than one year. Five exceptions for gains related to certain business assets are 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 tax year 1998. 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.

Capitals Gains Exclusion for Gains Reinvested in New Business Ventures. A complete exclusion is provided for up to $10 million for a long-term capital gain provided the claimant: (a) deposits the gain into a segregated account in a financial institution; (b) invests all of the proceeds in the account in a qualified new business venture within 180 days of the sale of the asset generating the gain; and (c) notifies the Department of Revenue (DOR) that the capital gain has been reinvested and, therefore, will not be declared on the claimant's income tax return. The Wisconsin Economic Development Corporation (WEDC) is required to certify qualified new business ventures, provided the businesses are engaged in: (a) developing a new product or business process; or (b) manufacturing, agriculture, or processing or assembling products and conducting research and development. Businesses desiring certification must submit an application to WEDC in each taxable year for which certification is desired. This exclusion was enacted in 2009 Wisconsin Act 28 and first applied in tax year 2011.

Capitals Gains Deferral for Gains Reinvested in Qualified Wisconsin Businesses. A deferral is provided for a long-term capital gain provided the claimant: (a) deposits the gain into a segregated account in a financial institution; (b) invests all of the proceeds in the account in a qualified Wisconsin business within 180 days of the sale of the asset generating the gain; and (c) notifies DOR that the capital gain has been reinvested and, therefore, will not be declared on the claimant's income tax return. The gain is treated as a deferral, so the basis for the investment in the Wisconsin business is calculated by subtracting the initial gain from the investment. Upon application by a business, WEDC is required to certify qualified Wisconsin businesses, provided the businesses meet the following criteria in the year immediately preceding the application for certification: (a) the amount of payroll compensation paid by the business in Wisconsin is equal to at least 50% of all payroll compensation paid by the business; and (b) the value of real and tangible personal property owned or rented and used by the business in Wisconsin is equal to at least 50% of all such property owned or rented and used by the business. Businesses seeking certification must submit an application to WEDC in each taxable year for which certification is desired. The deferral was enacted in 2011 Wisconsin Act 32 and first applied in tax year 2011.

Capitals Gains Exclusion for Gains from the Sale of a Wisconsin Capital Asset. A complete exclusion is provided for a long-term capital gain from the sale of a Wisconsin capital asset, provided the asset was purchased after December 31, 2010, and held for at least five years. Qualifying gains include: (a) gains realized from the sale of any asset which is a Wisconsin capital asset in the year it is purchased by the claimant and is a Wisconsin asset for at least two of the subsequent four years; (b) is held for at least five uninterrupted years; and (c) is a long-term gain under the Internal Revenue Code. "Wisconsin capital asset" is defined as: (a) real or tangible personal property that is located in Wisconsin and used in a Wisconsin business; or (b) stock or other ownership interest in a Wisconsin business. Upon application by a business, WEDC is required to certify Wisconsin businesses, provided the businesses meet the following criteria in the year immediately preceding the application for certification: (a) the amount of payroll compensation paid by the business in Wisconsin is equal to at least 50% of all payroll compensation paid by the business; and (b) the value of real and tangible personal property owned or rented and used by the business in Wisconsin is equal to at least 50% of all such property owned or rented and used by the business. Businesses seeking certification must submit an application to the WEDC in each taxable year for which certification is desired. This exclusion was enacted in 2011 Wisconsin Act 32 and first applies in tax year 2016.

If a gain deferred under the preceding provision is reinvested in a Wisconsin capital asset that is subsequently sold, the basis for the subsequent gain is reduced by the amount of the deferral. That is, the deferral would become taxable. However, a qualifying gain may not include an amount for which the claimant claimed a subtraction as a reinvestment in a qualified new business venture under the Act 28 provision.

While the three preceding capital gains treatments display similarities, they embody different policy objectives. Included in the 2011-13 biennial budget act, the two preceding treatments were intended to work together to make investment in Wisconsin-based businesses more attractive. The exclusion for gains reinvested in new business ventures was included in the 2009-11 biennial budget act and was intended to encourage investment in recently-created Wisconsin businesses. As such, the latter treatment might be characterized as a venture capital initiative.

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.

Depreciation. The deduction for depreciation allows taxpayers to recover, over a period of years, the cost of capital assets used in a trade or business or for the production of income. There are a number of methods used to calculate depreciation under federal law, which depend on the type of property being depreciated and when it was first placed into service. The Modified Accelerated Cost Recovery System (MACRS) rules of depreciation apply to most tangible property placed in service after 1986. In recent years the federal government has also enacted a number of laws that permit businesses to claim accelerated "bonus" depreciation deductions. However, these provisions have generally not been adopted at the state level, and Wisconsin law generally conforms to the federal depreciation provisions in effect on December 31, 2000.

An exception to this treatment was created by 2005 Wisconsin Act 362, which modified state provisions pertaining to certain depreciable property used in farming. Under Act 362, for property acquired and placed in service in tax years beginning on or after January 1, 2006, an individual that is "actively engaged in farming" (as defined in the federal code) may compute amortization and depreciation on property used in farming based on changes made to certain sections of the federal bonus depreciation provisions. To date, no such federal law changes have been made. Therefore, the Act 362 changes relating to depreciation have had no effect for Wisconsin taxpayers.

For more information on depreciation and on federal and state depreciation provisions, refer to the Legislative Fiscal Bureau's informational paper entitled, "Corporate Income/Franchise Tax."

Election to Expense Depreciable Assets. Under Section 179 of the IRC, a taxpayer may elect to treat all or a portion of the cost of qualifying property, up to a limit, as an expense rather than as a capital expenditure. Such an expense or cost is deductible in the year in which the property is placed in service. The amount claimed as a deduction is referred to as a Section 179 expense allowance. Except for certain agricultural structures, qualifying property is generally limited to tangible personal property.

Under federal law, the Section 179 deduction is the cost of qualifying property up to a maximum limit, and the deductible amount is reduced by the amount by which the total cost of the Section 179 property placed in service in a year exceeds a specified phase-out amount (investment limit). The federal deduction limits have been increased several times in recent years, but those increases are scheduled to expire after 2013. Current federal law provides a $500,000 maximum expense amount and a $2,000,000 investment limit for 2010 through 2013. Beginning with property placed in service in 2014, the expense limit will be reduced to $25,000 and the investment limit will be decreased to $200,000, and these amounts will not be adjusted for inflation.

The dollar limitation on the amount of deduction is reduced on a dollar-for-dollar basis for the cost of qualifying property placed in service during the tax year over the investment limit. Federal law also places limits on the amounts that can be deducted for certain types of investments such as automobiles. In addition, the American Jobs Creation Act of 2004 limited to $25,000 the amount that could be expensed for vehicles weighing between 6,000 and 14,000 pounds ("SUV exclusion").

For Wisconsin tax purposes, the amount that may be expensed under Section 179 is limited to $25,000, and the phase-out threshold is $200,000. An exception to the $25,000 limitation was provided for property placed in service during 2008 and 2009 for persons who were actively engaged in farming. However, this exception no longer applies. For Wisconsin tax purposes, for taxable years beginning after 2010, persons who are actively engaged in farming are limited to the Section 179 expense deduction of $25,000. The phase-out threshold is $200,000.

Disability Income. State taxpayers who meet 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 federal 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 Pay. Wisconsin law conforms to a federal income tax exclusion for military pay earned while serving in a combat zone. In addition, 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. This deduction applies in the case of the following: (a) members of the Wisconsin National Guard who have been mobilized for special state service by the federal government; and (b) members of the Wisconsin Reserves and National Guard who have been mobilized by the federal government to active duty. The deduction does not apply to pay received by reservists during regular weekend and two-week annual training sessions. A person who claims the deduction 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 by a Wisconsin court, 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.

Beginning in tax year 1997, federal law provided an adoption expense credit equal to $5,000 ($6,000 for the adoption of a special needs child). The federal credit was increased to up to $10,000 of qualified adoption expenses per child, effective with tax year 2002, and the credit is indexed annually for inflation. For tax year 2012, the maximum credit is $12,650. 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.

Wisconsin Section 529 College Savings Programs. The Wisconsin Section 529 program offers two college savings options that meet federal standards for a qualified state tuition program. 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 program is the college savings account program, made up of the EdVest and Tomorrow's Scholar college savings plans, 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 closed the tuition unit option to all new investments, effective December 20, 2002. Instead, EdVest and Tomorrow's Scholar are now offering a wider variety of investment options through the newer, more flexible college savings account program.

For state tax purposes, donors may deduct up to $3,000 in contributions per beneficiary to an EdVest or Tomorrow's Scholar account if the beneficiary is the donor, or the donor's spouse, child, grandchild, great-grandchild, niece, or nephew. In the case of children, the beneficiary need not be a dependent child.

Wisconsin has provided an income tax exemption for Wisconsin Section 529 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 qualified state tuition program. 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 a deduction from income for tuition expenses. The deduction applies to tuition and mandatory student fees 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.

For tax year 2012, the maximum deduction per eligible student per year was $6,543. This exclusion may not be claimed if the source of the tuition payment is a withdrawal from a Wisconsin state-sponsored college savings program or college tuition and expenses program, such as EdVest, provided the contribution to the account was previously claimed as an exclusion to taxable income.

The maximum deduction is phased out in specified ranges of federal AGI that vary with filing status. The phase-out ranges are as follows: (a) $50,000 to $60,000 for single and head-of-household filers; (b) $80,000 to $100,000 for married couples filing joint returns; and (c) $40,000 to $50,000 for married couples filing separate returns.

A federal deduction is permitted for qualified higher education expenses. The maximum federal deduction is set at $4,000, but is limited based on the taxpayer's AGI ($65,000, if single, and $130,000 if joint). The deduction is reduced to $2,000 for taxpayers with a higher AGI (up to $80,000, if single, and $160,000, if joint). This deduction is scheduled to expire after tax year 2013. Wisconsin has not adopted the federal deduction for state purposes, but has its own deduction as noted above.

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 for state tax purposes. This provision took effect in tax year 1998.

Child and Dependent Care Expenses. Expenses related to child and dependent care are deductible from income for state tax purposes. The exclusion is being phased in over a four-year period, starting in tax year 2011, when the maximum deduction from employment-related expenses was set at $750 for one qualified individual and up to $1,500 for more than one qualified individual. The exclusion will increase to up to $1,500 for one qualified individual and up to $3,000 for more than one qualified individual, for tax year 2012; to up to $2,250 for one qualified individual and up to $4,500 for more than one qualified individual, for tax year 2013; and to up to $3,000 for one qualified individual and up to $6,000 for more than one qualified individual, for tax years 2014 and thereafter. The deduction is based on the expenses claimed for purposes of the federal child and dependent care credit and must be deducted for the same taxable year as the year to which the claim for the federal credit relates.

Federal law provides an individual income tax credit for child and dependent care expenses that are paid for the purpose of enabling a taxpayer to be gainfully employed. The maximum amount of expenses that can be claimed for the federal credit is $3,000 if the claimant has one qualifying child or dependent and $6,000 if the claimant has more than one qualifying child and/or dependent. The credit is calculated as a percentage of eligible expenses, with the percentage ranging from 35% to 20%, depending on the claimant's adjusted gross income. The credit is phased out for taxpayers with incomes above specified thresholds.

Eligible claims for the federal credit must satisfy a number of tests, including a qualifying person test. Under the federal provisions, a qualifying person includes: (a) the claimant's qualifying child (which means that the child must have lived with the claimant for more than half the year, among other requirements) who is the claimant's dependent and who was under the age of 13 when the care was provided; (b) the claimant's spouse who was physically or mentally not able to care for himself or herself and lived with the claimant for more than half the year; and (c) a person who was physically or mentally not able to care for himself or herself, lived with the claimant for more than half the year, and, with certain exceptions, was the claimant's dependent.

The following federal tests must also be met to claim the child and dependent care credit: (a) with an exception related to being a student, the individual claiming the credit (and the individual's spouse, if married) must have earned income during the year; (b) the child and dependent care expenses must be being paid so that the individual claiming the credit (and the individual's spouse, if married) can work or look for work; (c) the payments for the child and dependent care must be made to someone who cannot be claimed as a dependent of the individual claiming the credit or the individual's spouse; (d) in general, the claimant's filing status must be single, head-of-household, qualifying widow(er) with dependent child, or married filing jointly; and (e) the care provider must be identified on the claimant's tax return. In addition, if a claimant excludes or deducts dependent care benefits provided by a dependent care benefit plan, the total amount excluded or deducted under such a plan must be less than the dollar limit for qualifying expenses under the credit.

Retirement Income. Since tax year 2009, Wisconsin law has allowed an exclusion of up to $5,000 per person aged 65 or older. This treatment is limited to taxpayers with adjusted gross income of $15,000 or less ($30,000 or less for married-joint filers). The exclusion applies with respect to distributions from qualified retirement plans under the federal Internal Revenue Code, including distributions from all qualified pension, profit-sharing, and stock bonus plans under the IRC, and from deferred compensation plans offered by state and local governments and tax-exempt organizations under the IRC. The exclusion also applies to otherwise taxable distributions from IRAs, self-employed plans, tax-sheltered annuities, and other qualified retirement plans.

Relocated Business Income. Since tax year 2011, individuals have been allowed a subtraction for the income of a business that relocated to Wisconsin from another state or country. The adjustment is available in the year of relocation and the succeeding year, provided the business relocates either 51% of its workforce payroll or at least $200,000 of wages paid to its workforce during the first taxable year to which the subtraction applies. The subtraction is available both to individuals with business income and to individuals with pass-through income from a partnership, limited liability company (LLC), or a tax option corporation. A credit, rather than a subtraction, is available to relocating businesses subject to the corporate income/franchise tax. The subtraction and credit were created by 2011 Wisconsin Act 3.

Job Creation. Since tax year 2011, individuals have been allowed a subtraction related to the increase in the number of full-time equivalent (FTE) employees in Wisconsin by a business. The adjustment is calculated per FTE employee and equals $4,000 if the gross receipts of the business do not exceed $5 million and $2,000 if the gross receipts of the business exceed $5 million. The subtraction is available both to individuals with business income and to individuals with pass-through income from a partnership, LLC, or a tax option corporation. The deduction may not be claimed by individuals who are eligible to claim the relocated business income adjustment, described above. The subtraction is in addition to a previously existing deduction for salaries, wages, and other forms of remuneration to employees and officers of a business. The subtraction was created by 2011 Wisconsin Act 5.

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 2012, a single taxpayer with Wisconsin AGI less than $14,070 has a standard deduction of $9,760; for single taxpayers with adjusted gross income in excess of $95,403, no standard deduction is provided. Married taxpayers filing a joint return with AGI less than $19,750 have a standard deduction of $17,580; if their AGI is greater than $108,637, no standard deduction is available. Married taxpayers filing separate returns have a standard deduction of $8,350 if their AGI is less than $9,380; if their AGI is greater than $51,599, no standard deduction is provided. Head-of-household taxpayers with AGI of less than $14,070 may claim a standard deduction of $12,610; no deduction is allowed if income exceeds $95,403.

Table 2: Sliding Scale Standard Deduction for Tax Year 2012

Marital Status	Wisconsin AGI	Standard Deduction
Single	Less than $14,070	$9,760
	$14,070 to $95,403	$9,760-12.0% (WAGI-$14,070)
	Greater than $95,403	$0
Married, Joint	Less than $19,750	$17,580
	$19,750 to $108,637	$17,580-19.778% (WAGI-$19,750)
	Greater than $108,637	$0
Married, Separate	Less than $9,380	$8,350
	$9,380 to $51,599	$8,350-19.778% (WAGI-$9,380)
	Greater than $51,599	$0
Head-of-Household	Less than $14,070	$12,610
	$14,070 to $41,174	$12,610-22.515% (WAGI-$14,070)
	Greater than $41,174	Single Standard Deduction

Since tax year 1999, the dollar amounts used in the standard deduction have been 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. After a negative adjustment occurred for tax year 2010, a provision was included in 2009 Act 28 to limit future adjustments to no less than 0.0%. For tax year 2012, the indexing adjustment is 3.8%.

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 a dependent 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.

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 2012, the first $14,090 of taxable income is taxed at 4.60%, the second $14,090 is taxed at 6.15%, the next $183,150 is taxed at 6.50%, the next $98,880 is taxed at 6.75%, and taxable income in excess of $310,210 is taxed at 7.75%.

Table 3 shows the tax rate and bracket schedules for tax year 2012. Prior to tax year 2000, the tax structure consisted of three tax brackets, but 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

Table 3: Tax Rates and Brackets for Tax Year 2012

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	$---	$10,570	$---	4.60%
	10,570	21,130	486	6.15
	21,130	158,500	1,136	6.50
	158,500	232,660	10,065	6.75
	232,660	and over	15,071	7.75
Married, Joint	$---	$14,090	$---	4.60%
	14,090	28,180	648	6.15
	28,180	211,330	1,515	6.50
	211,330	310,210	13,419	6.75
	310,210	and over	20,094	7.75
Married, Separate	$---	$7,040	$---	4.60%
	7,040	14,090	324	6.15
	14,090	105,660	757	6.50
	105,660	155,110	6,709	6.75
	155,110	and over	10,047	7.75

and then again for tax years 2001 and thereafter. A fifth income tax bracket, utilizing a rate of 7.75%, was added beginning in tax year 2009.

Since tax year 1999, the tax brackets have been indexed annually for changes in inflation. In the intervening years, the indexing adjustment was negative on one occasion (-1.5% for tax year 2010), but a 2009 Act 28 provision limits future adjustments to no less than 0.0% for future years. For tax year 2012, the indexing adjustment is 3.8%.

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 2012, 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 qualified contributions to IRAs and self-employment retirement plans.

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; (e) other interest expenses, except personal interest; and (f) casualty losses that are directly related to a presidentially declared disaster. Federal law also permits certain deductions for state and local taxes, other casualty and theft losses, 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. 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 subsequently eliminated for 1999 as part of the sales tax rebate legislation (1999 Wisconsin Act 10), and 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.

Other State Tax Credit. A credit for taxes paid to other states is available to taxpayers who are Wisconsin residents and who paid tax on the same income both to Wisconsin and to another state, including the District of Columbia. The credit is equal to the amount of tax paid to the other state on the same income that is subject to Wisconsin taxation.

Credit for Military Income. Since tax year 2006, active duty members of the U.S. Armed Forces were eligible for a credit of up to $300 for income received for military service received while stationed outside of the U.S. (including tax exempt combat zone income). A married couple was eligible for a credit of up to $600 if both spouses qualified. For tax years 2000 through 2005, the maximum credit was $200 ($400 if both spouses qualified). This credit may not be claimed by military reservists and National Guard members who claim an exemption for active duty pay received outside of a federal combat zone.

Earned Income Tax Credit. The earned income tax credit (EITC) is offered at both the fed-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. 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. Since tax year 2004, taxpayers have been permitted to include combat pay that is otherwise excluded from gross income as earned income for purposes of calculating the earned income credit. State tax law automatically conforms to federal modifications in the definition of earned income for purposes of the EITC.

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 2012, the disqualified income threshold is $3,200; this amount is adjusted each year for changes in inflation.

The federal credit parameters for tax year 2012 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; 11% for families with two children; and 34% for families with three or more children. Based on the 2012 federal credit parameters shown in Table 4 and the state credit percentages, the maximum state

Table 4: 2012 Federal EITC Provisions*

	No Children	One Child	Two Children	3 or More Children
Credit Percentage	7.65%	34.0%	40.0%	45.0%
Maximum Income	$6,210	$9,320	$13,090	$13,090
Maximum Credit	475	3,169	5,236	5,891
Phase-Out Income	7,770	17,090	17,090	17,090
Phase-Out Rate	7.65%	15.98%	21.06%	21.06%
Maximum Income	13,980	36,920	41,952	45,060

*For married-joint filers, the phase-out incomes and maximum income levels for 2012 exceed those shown above by $5,210.

credits for 2012 are: $127 for families with one child, $576 for families with two children, and $2,003 for families with three or more children. The maximum state credits change each year as the federal credit parameters are adjusted for inflation.

The preceding percentages reflect modifications to the state credit made by 2011 Wisconsin Act 32, effective with tax year 2011. The Act reduced the percentages for claimants with two children from 14% to 11% and for claimants with more than two children from 43% to 34%. The percentage for claimants with one child was not changed.

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. The credit is limited to households with annual income of not more than $24,680. 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 $1,460 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 $1,460 annually is considered. The amount of credit is determined by a formula. Households with incomes below $8,060 receive the maximum relief (80% of eligible property taxes). As income exceeds $8,060, the credit is reduced. The maximum credit is $1,168.

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. Except for those claimants under an existing farmland preservation agreement, 2009 Act 28 essentially ended the farmland preservation tax credit, as of tax year 2010. Under Act 28, the credit, along with the farmland tax relief credit, is essentially replaced with a new, per-acre farmland preservation credit. Unlike the previous two credits, under which the amount of property taxes paid by the claimant was a factor in determining the size of that claimant's tax credits, the new, per-acre credit does not have a property tax component. The credit is simply based upon the amount of qualifying acres of a claimant. The credits are provided from a sum certain GPR appropriation funded at $27.0 million in 2012-13.

The original farmland preservation program, which continues to exist beyond tax year 2010 for some farmland preservation agreement holders, provided property tax relief to farmland owners and, similar to the new credit, encouraged local governments to develop farmland preservation policies. The property tax relief was provided as a credit reducing income tax liability or as a cash refund if the credit exceeded income tax due. The credit formula was based on household income, the amount of property tax, and the type of land use provisions protecting the farmland. Remaining farmland preservation agreement holder credits are paid from a GPR, sum sufficient appropriation.

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

Veterans Property Tax Credit. Since tax year 2005, Wisconsin has provided a refundable credit against the individual income tax for property taxes paid by certain veterans and unremarried surviving spouses of veterans. Currently, the tax credit is equal to real and personal property taxes paid on a principal dwelling by an eligible veteran or by an eligible unremarried surviving spouse.

An eligible veteran is defined as a person: (a) who served on active duty in the U.S. armed forces; (b) was a resident of this state at the time of entry into that service or had been a Wisconsin resident for any consecutive five-year period after entry; (c) who is a resident of the state for purposes of receiving veterans benefits; and (d) has a service-connected disability of 100% or a 100% disability rating based on individual employability.

An unremarried surviving spouse includes persons meeting any of three criteria relative to the deceased spouse:

a. The spouse died while on active duty in the U.S. armed forces, was a Wisconsin resident at the time of entry into service or for any subsequent, consecutive five-year period, and was a Wisconsin resident at the time of death;

b. The spouse served on active duty in the U.S. armed forces, was a Wisconsin resident at the time of entry into active service or for any subsequent, consecutive five-year period, was a resident of this state at the time of death, and had a service-connected disability of 100% or a 100% disability rating based on individual employability; or

c. The person served in the National Guard or U.S. armed forces reserves, who was a Wisconsin resident at the time of entry into active service or for any subsequent, consecutive five-year period, and who died in the line of duty while on active or inactive duty while a Wisconsin resident.

For married-joint filers, an eligible veteran may claim the credit for the entire property tax imposed on the veteran's principal dwelling, rather than for the share of property taxes that reflects the veteran's ownership interest in the dwelling (which is 50% for property owned as marital property). For a married couple filing separate returns, an eligible veteran and an eligible spouse are each permitted to claim the veterans property tax credit based on their respective ownership interest in the veteran's principal dwelling.

The veterans property tax credit is not allowed if an individual or the individual's spouse files a claim for the PTRC, the farmland preservation credit, or the homestead credit.

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.

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.

Angel Investment Tax Credit. The angel investment tax credit equals 25% of the claimant's bona fide angel investment made directly in a qualified new business venture (QNBV) for the tax year. With the early stage seed investment tax credit, the angel investment tax credit is administered jointly by DOR and WEDC.

The aggregate amount of investment in any one QNBV that may qualify for angel investment or early stage seed investment tax credits is $8.0 million. Investments in a QNBV must be maintained in the business by an angel investor, angel investment network, or certified fund manager for at least three years.

WEDC certifies fund managers and businesses to participate in the program, and, in order to receive tax credits based on eligible investments, angel investors, angel investor networks, and venture capital funds must follow a verification process administered by WEDC.

The maximum aggregate amount of angel investment tax credits that can be claimed for a tax year is $20 million, plus an additional $250,000 for tax credits may be claimed for investments in nanotechnology businesses. The maximum total amount of tax credits that can be claimed for all tax years is $47.5 million.

Additional information on the angel investment tax credit and the early stage seed investment credit is included in the Legislative Fiscal Bureau's informational paper entitled, "State Economic Development Financial Assistance Programs Administered by the Wisconsin Economic Development Corporation."

Business Tax Credits. There are a number of business tax credits that are provided under both the state individual income tax and the state corporate income/franchise tax. These credits are described in the Legislative Fiscal Bureau informational paper entitled, "Corporate Income/Franchise Tax" but are listed below.

- Postsecondary Education
- Water Consumption
- Health Insurance Risk-Sharing Plan Assessment
- Biodiesel Fuel Production
- Manufacturing Sales Tax
- Manufacturing Investment
- Dairy and Livestock Farm Investment
- Ethanol and Biodiesel Fuel Pump
- Development Zones
- Technology Zone
- Economic Development
- Early Stage Seed Investment
- Internet Equipment
- Enterprise Zone Credits
- Dairy Cooperatives Credit
- Dairy Manufacturing Facility Investment
- Meat Processing Facility Investment
- Film Production Services
- Film Production Company Investment
- Woody Biomass Harvesting and Processing
- Food Processing Plant and Food Warehouse Investment
- Jobs
- Beginning Farmer and Farm Asset Owner
- Electronic Medical Records
- Community Rehabilitation
- Veteran Employment
- Manufacturing and Agriculture (effective January 1, 2013)

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 adjustments and tax preference items are added (or recaptured). An exemption is provided to taxpayers with an AMTI below specified amounts. The exemptions vary by filing status and phase out as income rises. 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 2012, tax preference items for federal and state tax purposes include: (a) the excess of the accelerated deprecation deduction over the deduction allowed for straight-line depreciation for certain types of property; (b) amortization costs associated with pollution control facilities and certain depletion deductions; (c) stock received by exercising an incentive stock option, if the taxpayer did not dispose of the stock in the same year; (d) certain excess intangible drilling costs; (e) income or losses from tax shelter farm activities; (f) income from long-term contracts not figured using the percentage of completion method; (g) interest paid on a home mortgage not used to buy, build, or improve the taxpayer's home; (h) certain investment interest expense; and (i) net operating loss deduction.

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.

Federal provisions that were enacted on a temporary basis beginning in 1998 have become known as the "AMT patch." These provisions relate to the use of personal tax credits to reduce AMT liability, first effective in tax year 1998, and to changes to the exemption levels, intended to offset the impact of inflation. "Permanent" exemption amounts were set at $45,000 for married-joint filers, $33,750 for single filers, and $22,500 for married taxpayers filing separate returns, but these levels were last effective in tax year 2000 because they had been increased several times on a temporary basis, beginning in tax year 2001. The American Taxpayer Relief Act of 2012 sets the federal exemption amounts for tax year 2012 at $78,750 for married-joint filers, $50,600 for single filers, and $39,375 for married taxpayers filing separate returns. Also, the Act eliminates the need for an AMT patch by providing an inflation adjustment to the exemption amounts and by permanently allowing the use of personal tax credits to reduce AMT liability, beginning in tax year 2012.

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 the increased exemptions. Instead, Wisconsin's exemption amounts for 2012 and thereafter are based on the federal exemption amounts in effect before tax year 2001, as described above.

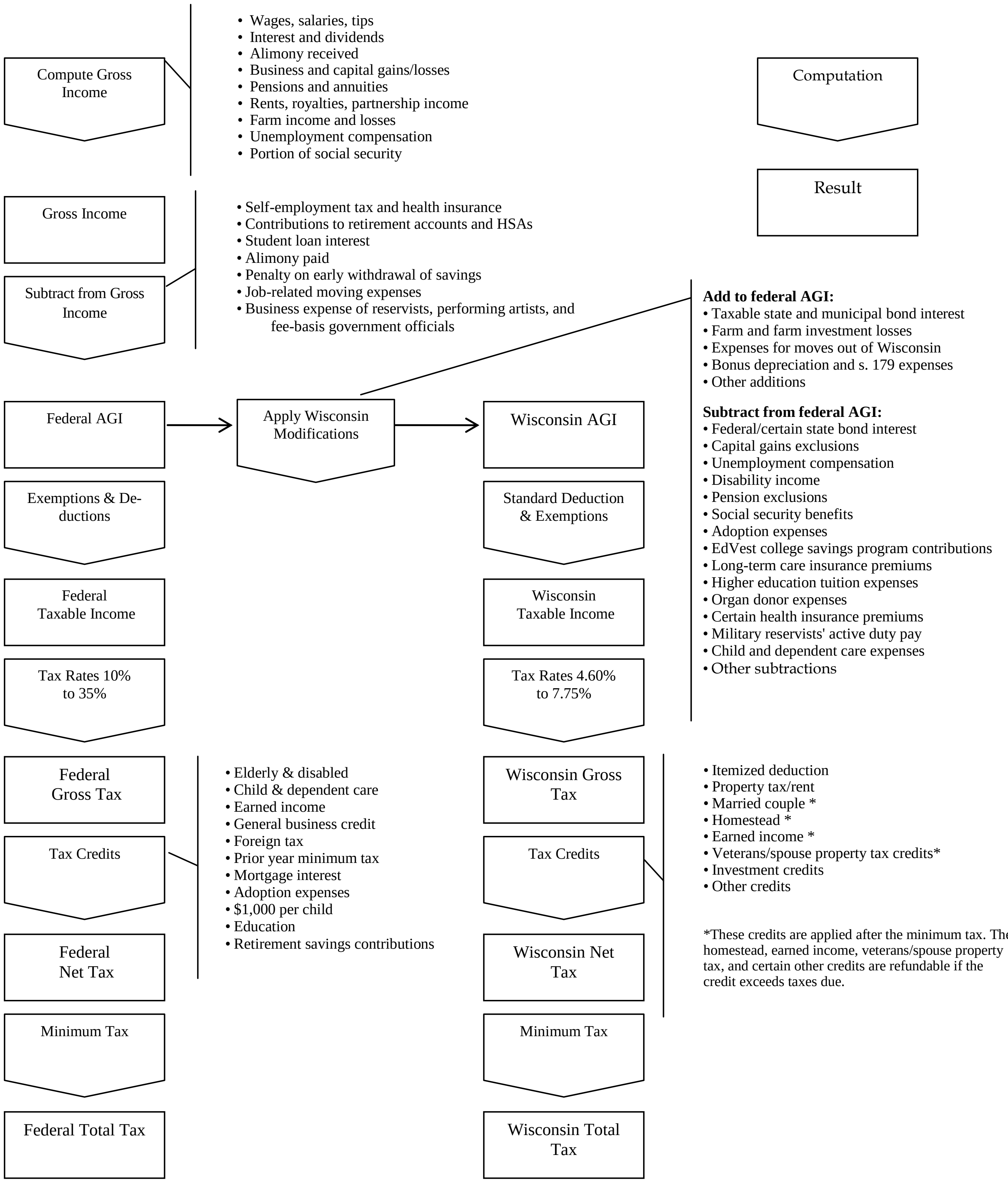
Federal tax preferences that do not reflect a tax benefit under the regular state income tax are not treated as tax preferences for Wisconsin AMT purposes. A tax rate of 6.5% is applied to state AMTI after adjusting for the allowed exemption amount. The state minimum tax is owed only if AMT liability 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 2012 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.

CHART 1

Major Components in the Calculation of Federal and Wisconsin Income Taxes
Tax Year 2012



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 lieu of the federal itemized deduction for state and local income taxes, taxpayers are able to take an itemized deduction for their state and local general sales tax. This provision has been in effect since 2004 and is currently scheduled to expire after 2013. A taxpayer electing to deduct sales taxes can 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. With certain exceptions, the state includes these items as part of the 5% itemized deduction credit. However, the state's credit is not provided for miscellaneous deductions or most casualty and theft losses, which are allowed under federal law.

In place of the flat standard deduction amounts of $5,950 for single taxpayers, $11,900 for married couples filing jointly, $5,950 for married-separate filers, and $8,700 for head-of-household filers under federal law in 2012, a sliding scale standard deduction is used under state law. The maximum state deduction is set at $9,760 for single taxpayers, $17,580 for married couples filing jointly, $8,350 for married-separate filers, and $12,610 for head-of-household filers, and phases out for higher-income taxpayers (for more information on the state standard deduction, refer to Table 2). If a person is blind or age 65 or over, the federal standard deduction is increased by $1,150 ($1,450 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 $3,800 for each taxpayer, spouse, and dependent in 2012. Wisconsin's personal exemption is $700, plus an additional $250 for persons age 65 or over.

Beginning in tax year 2013, federal law will limit the amount of itemized deductions and personal exemptions claimed by higher income taxpayers.

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 2012, federal tax rates are 10%, 15%, 25%, 28%, 33%, and 35%. Beginning in tax year 2013, federal income tax rates will range from 10% to 39.6%. The top rate will apply to a new tax bracket created by the American Taxpayer Relief Act of 2012. Wisconsin's marginal tax rates are 4.60%, 6.15%, 6.50%, 6.75%, and 7.75% in 2012, 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.

At the federal level, net capital gains are generally fully taxable regardless of how long the assets were held. However, certain maximum tax rates on net capital gains apply. Currently, and for sales of assets through December 31, 2012, for taxpayers whose top marginal federal tax rate is 25% or higher, gains on assets held for more than one year are subject to a maximum marginal tax rate of 15%. In the case of taxpayers in the 10% and 15% federal tax brackets, the maximum marginal tax rate is 0% for sales through 2012.

Beginning in 2013, the maximum capital gains tax rate will increase to 20%, under provisions in the American Taxpayer Relief Act of 2012. However, the rate will apply only to those taxpayers whose income exceeds the threshold for the 39.6% tax rate, described above. For 2013, the Act sets those thresholds at $450,000 for married-joint filers, $400,000 for single filers, $425,000 for head-of-household filers, and $225,000 for married taxpayers filing separate returns.

Under both rate structures, higher maximum tax rates apply to gains from certain types of assets, such as coins, art, antiques, and other collectibles (28% in 2012) and qualified small business stock (28% in 2012, although 50% or more of the gain is excluded from the taxpayer's gross income, depending on when the stock was acquired).

Under federal law, dividends received from domestic and qualified foreign corporations are taxed at the same rates that apply to capital gains. 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 net capital gains on farm assets and 30% of net capital gains on other assets, if the assets have been held for more than one year. In addition, gains realized on the sale of a business to a family member, the sale of qualifying small business stock, and long-term gains reinvested in certain new business ventures or Wisconsin-based assets may be deferred or excluded from taxation.

Historical Tax Collections Information

The annual amount of individual income taxes collected since 2001-02, 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. Over the 11-year period, individual income tax revenues fell in three years, in 2001-02, 2008-09, and 2009-10. The decrease in 2001-02 was related both to tax cuts adopted under the 1999-01 biennial budget act and by a national economic downturn. Another downturn beginning at the end of 2007 was the primary cause of the decreases in 2008-09 and 2009-10. In the six years between the two economic downturns, income tax revenue increases ranged between 1.5% (2002-03) and 8.7% (2005-06). The increases between 2002-03 and 2007-08 were largely the result of economic factors, rather than tax law changes. Since the end of the 2007-

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

Fiscal Year	Individual Income Tax	% Change	Percent of State General Fund Tax Collections
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
2004-05	5,650.1	7.1	49.6
2005-06	6,144.3	8.7	51.1
2006-07	6,573.8	7.0	52.1
2007-08	6,713.7	2.1	51.5
2008-09	6,222.7	-7.3	51.4
2009-10	6,089.2	-2.1	50.2
2010-11	6,700.7	10.0	51.9
2011-12	7,041.7	5.1	52.1

2009 recession, collections have increased 10.0% in 2010-11 and 5.1% in 2011-12. Tax increases included in 2009 Wisconsin Act 28 contributed to the first of the two increases.

Individual income tax collections comprised approximately 50% of total general fund tax collections throughout this period, ranging from 49.1% in 2003-04 to 52.1% in 2006-07 and 2011-12.

In 2012, 43 states and the District of Columbia had an individual income tax. For information on 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 2011

Aggregate data from individual income tax returns filed for tax year 2011 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 2011, rather than for the state's fiscal year 2011-12.

Table 6: Aggregate Data on State Individual Income Tax Returns (Tax Year 2011)

Count -- All Returns	2,903,430
Count -- Minimum Tax	5,898
Wis. Adj. Gross Income	140,922,887,137
Amount of Positive AGI	142,164,179,145
Used Deductions and Exemptions	20,602,861,671
Taxable Income	121,561,317,474
Gross Tax	7,623,743,600
Used Credits	1,229,012,307
Net Tax	6,394,731,293
Minimum Tax	6,487,350
Net Tax Including Minimum Tax	6,401,218,643
Average Tax Rate (Net Tax/Tax. Inc.)	5.27%
Average Eff Tax Rate (Net Tax/AGI)	4.54%

Source: 2011 Individual Income Tax Aggregate Data

The distribution of taxfilers by adjusted gross income class is shown in Table 7. For tax year 2011, 2.9 million taxfilers reported $140.9 billion in Wisconsin AGI. Of these taxfilers, approximately 2.0 million had a state individual income tax liability totaling $6.40 billion. The average tax liability was $3,189.

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 (including the minimum tax). Gross tax liability of approximately $7.62 billion was reduced by $1,229.0 million of used tax credits. After adding back $6.5 million in liability from the minimum tax, the net tax liability was $6.40 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 $391.9 million. Other tax credits shown in the table include: the itemized deduction credit at a cost of $294.0 million; and the married couple tax credit of $260.4 million.

Table 10 identifies the distribution of minimum tax liability by adjusted gross income class. The $6.5 million minimum tax in 2011 was paid by 5,898 taxpayers. The average minimum tax liability was $1,100.

The distribution of taxpayers by filing status and amount of gross income is shown in Table 11. Based on the 2011 aggregate data, the distribution included 59.1% who were single taxpayers (including single dependents and heads-of-households), 40.2% who filed married-joint returns, and 0.7% filing married-separate returns.

Table 7: Distribution of Wisconsin Adjusted Gross Income and Net Tax Liability by Adjusted Gross Income Class (Tax Year 2011)

	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	490,561	16.90%	-$505,131,529	-0.36%	-$1,030	36,762	1.83%	$4,161,128	0.07%	$113
5,000 - 10,000	259,629	8.94	1,924,683,464	1.37	7,413	25,516	1.27	5,466,408	0.09	214
10,000 - 15,000	211,490	7.28	2,634,807,468	1.87	12,458	101,094	5.04	15,274,120	0.24	151
15,000 - 20,000	191,602	6.60	3,342,980,260	2.37	17,448	138,902	6.92	38,557,151	0.60	278
20,000 - 25,000	174,854	6.02	3,929,776,103	2.79	22,475	149,169	7.43	72,997,311	1.14	489
25,000 - 30,000	164,801	5.68	4,526,781,147	3.21	27,468	157,383	7.84	111,345,477	1.74	707
30,000 - 40,000	280,618	9.67	9,762,772,145	6.93	34,790	276,095	13.75	310,056,309	4.84	1,123
40,000 - 60,000	389,044	13.40	19,168,463,924	13.60	49,271	385,744	19.22	753,643,378	11.77	1,954
60,000 - 80,000	264,122	9.10	18,330,992,415	13.01	69,404	262,750	13.09	814,266,281	12.72	3,099
80,000 - 100,000	174,160	6.00	15,542,062,692	11.03	89,240	173,445	8.64	743,645,816	11.62	4,288
100,000 - 150,000	190,155	6.55	22,713,515,443	16.12	119,447	189,203	9.43	1,152,983,117	18.01	6,094
150,000 - 200,000	52,599	1.81	8,965,449,869	6.36	170,449	52,135	2.60	479,309,056	7.49	9,194
Over 200,000	59,795	2.06	30,585,733,736	21.70	511,510	59,058	2.94	1,899,513,091	29.67	32,164
Total	2,903,430	100.00%	$140,922,887,137	100.00%	$48,537	2,007,256	100.00%	$6,401,218,643	100.00%	$3,189

Table 8: Distribution of Wisconsin Gross Tax Liability, Used Credits, and Net Tax Liability by Adjusted Gross Income Class (Tax Year 2011)

Total Adjusted Gross Income	Gross Tax Liability Amount	Gross Tax Liability Percent	Used Credit Amounts Amount	Used Credit Amounts Percent	Maximum Tax Liability Amount	Maximum Tax Liability Percent	Net Tax Liability (Including Minimum Tax) Amount	Net Tax Liability (Including Minimum Tax) Percent
Under $5,000	$3,238,564	0.04%	$502,357	0.04%	$1,424,921	21.96%	$4,161,128	0.07%
5,000 - 10,000	5,703,344	0.07	484,799	0.04	247,863	3.82	5,466,408	0.09
10,000 - 15,000	21,719,291	0.28	6,598,140	0.54	152,969	2.36	15,274,120	0.24
15,000 - 20,000	55,391,511	0.73	16,987,513	1.38	153,153	2.36	38,557,151	0.60
20,000 - 25,000	97,106,441	1.27	24,184,767	1.97	75,637	1.17	72,997,311	1.14
25,000 - 30,000	141,897,923	1.86	30,654,610	2.49	102,164	1.57	111,345,477	1.74
30,000 - 40,000	378,780,197	4.97	68,865,806	5.60	141,918	2.19	310,056,309	4.84
40,000 - 60,000	909,021,201	11.92	155,553,152	12.66	175,329	2.70	753,643,378	11.77
60,000 - 80,000	988,346,747	12.96	174,265,805	14.18	185,339	2.86	814,266,281	12.72
80,000 -100,000	907,225,249	11.90	163,768,754	13.33	189,321	2.92	743,645,816	11.62
100,000 -150,000	1,393,586,125	18.28	241,051,215	19.61	448,207	6.91	1,152,983,117	18.01
150,000 -200,000	560,739,797	7.36	81,905,577	6.66	474,836	7.32	479,309,056	7.49
Over 200,000	2,160,987,210	28.35	264,189,812	21.50	2,715,693	41.86	1,899,513,091	29.67
Total	$7,623,743,600	100.00%	$1,229,012,307	100.00%	$6,487,350	100.00%	$6,401,218,643	100.00%

Table 9: Distribution of Selected Used Credits by Type of Credit by Adjusted Gross Income Class (Tax Year 2011)

Total Adjusted Gross Income	Property Tax/Rent Amount	Property Tax/Rent Percent	Itemized Deduction Amount	Itemized Deduction Percent	Married Couple Amount	Married Couple Percent
Under $5,000	$43,104	0.01%	$131,507	0.04%	$27,977	0.01%
5,000 - 10,000	143,513	0.04	206,208	0.07	30,860	0.01
10,000 - 15,000	5,745,478	1.47	411,371	0.14	56,922	0.02
15,000 - 20,000	15,074,231	3.85	978,790	0.33	100,075	0.04
20,000 - 25,000	20,864,720	5.32	1,509,692	0.51	557,267	0.21
25,000 - 30,000	24,619,489	6.28	2,077,017	0.71	2,214,138	0.85
30,000 - 40,000	48,574,777	12.39	5,647,321	1.92	9,339,582	3.59
40,000 - 60,000	82,236,509	20.98	17,888,239	6.08	39,607,219	15.21
60,000 - 80,000	65,226,480	16.64	28,892,437	9.83	60,160,002	23.10
80,000 -100,000	46,186,703	11.78	43,915,924	14.94	53,493,846	20.54
100,000 -150,000	52,431,656	13.38	86,520,914	29.43	64,808,735	24.89
150,000 -200,000	14,620,764	3.73	32,139,080	10.93	16,571,611	6.36
Over 200,000	16,143,585	4.12	73,658,205	25.06	13,459,282	5.17
Total	$391,911,009	100.00%	$293,976,705	100.00%	$260,427,516	100.00%

Table 10: Distribution of Minimum Tax Liability by Adjusted Gross Income Class (Tax Year 2011)

Total Adjusted Gross Income	Count of Taxpayers	Percent	Amount	Percent	Average Amount
Under $5,000	2,279	38.64%	$1,424,921	21.96%	$625
5,000 - 10,000	430	7.29	247,863	3.82	576
10,000 - 15,000	260	4.41	152,969	2.36	588
15,000 - 20,000	197	3.34	153,153	2.36	777
20,000 - 25,000	106	1.80	75,637	1.17	714
25,000 - 30,000	93	1.58	102,164	1.57	1,099
30,000 - 40,000	154	2.61	141,918	2.19	922
40,000 - 60,000	188	3.19	175,329	2.70	933
60,000 - 80,000	128	2.17	185,339	2.86	1,448
80,000 -100,000	108	1.83	189,321	2.92	1,753
100,000 -150,000	212	3.59	448,207	6.91	2,114
150,000 -200,000	256	4.34	474,836	7.32	1,855
Over 200,000	1,487	25.21	2,715,693	41.86	1,826
Total	5,898	100.00%	$6,487,350	100.00%	$1,100

Table 11: Distribution of Taxpayers by Filing Status and by Adjusted Gross Income Class (Tax Year 2011)

Total Adjusted Gross Income	Total		Married Filing Jointly		Single		Single, Claimed as Dependent by Other		Head-of-Household		Married Filing Separately	
	Count	Percent	Count	Percent	Count	Percent	Count	Percent	Count	Percent	Count	Percent
Under $5,000	490,561	16.90%	74,022	6.33%	285,366	23.05%	106,223	51.77%	22,059	8.10%	2,891	15.10%
5,000 - 10,000	259,629	8.94	36,198	3.10	130,752	10.56	65,636	31.99	25,291	9.29	1,752	9.15
10,000 - 15,000	211,490	7.28	38,240	3.27	116,037	9.37	22,893	11.16	32,552	11.96	1,768	9.24
15,000 - 20,000	191,602	6.60	37,386	3.20	112,773	9.11	6,515	3.18	33,136	12.17	1,792	9.36
20,000 - 25,000	174,854	6.02	38,503	3.29	101,774	8.22	2,042	1.00	30,832	11.32	1,703	8.90
25,000 - 30,000	164,801	5.68	44,737	3.83	90,484	7.31	844	0.41	27,128	9.96	1,608	8.40
30,000 - 40,000	280,618	9.67	92,611	7.92	146,220	11.81	551	0.27	38,710	14.22	2,526	13.20
40,000 - 60,000	389,044	13.40	192,412	16.46	156,807	12.67	212	0.10	36,678	13.47	2,935	15.33
60,000 - 80,000	264,122	9.10	192,784	16.49	55,411	4.48	77	0.04	14,797	5.43	1,053	5.50
80,000 -100,000	174,160	6.00	149,042	12.75	19,377	1.57	38	0.02	5,250	1.93	453	2.37
100,000 -150,000	190,155	6.55	172,270	14.74	13,810	1.12	53	0.03	3,654	1.34	368	1.92
150,000 -200,000	52,599	1.81	47,670	4.08	3,792	0.31	19	0.01	1,004	0.37	114	0.60
Over 200,000	59,795	2.06	52,975	4.53	5,380	0.43	71	0.03	1,189	0.44	180	0.94
Total	2,903,430	100.00%	1,168,850	100.00%	1,237,983	100.00%	205,174	100.00%	272,280	100.00%	19,143	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%). Effective for tax year 2009 and thereafter, a fifth tax bracket for high-income taxpayers was created by 2009 Wisconsin Act 28, and the marginal tax rate for the bracket was set at 7.75%.

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

2005

Taxable Income Brackets			Marginal
Single	Married, Joint	Married, Separate	Tax Rates
$0 - $8,840	$0 - $11,780	$0 - $5,890	4.60%
8,840 - 17,680	11,780 - 23,570	5,890 - 11,780	6.15
17,680 - 132,580	23,570 - 176,770	11,780 - 88,390	6.50
Over 132,580	Over 176,770	Over 88,390	6.75

2006

Taxable Income Brackets			Marginal
Single	Married, Joint	Married, Separate	Tax Rates
$0 - $9,160	$0 - $12,210	$0 - $6,110	4.60%
9,160 - 18,320	12,210 - 24,430	6,110 - 12,210	6.15
18,320 - 137,410	24,430 - 183,210	12,210 - 91,600	6.50
Over 137,410	Over 183,210	Over 91,600	6.75

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

2007

Taxable Income Brackets			Marginal
Single	Married, Joint	Married, Separate	Tax Rates
\$0 - \$9,510	\$0 - \$12,680	\$0 - \$6,340	4.60%
9,510 - 19,020	12,680 - 25,360	6,340 - 12,680	6.15
19,020 - 142,650	25,360 - 190,210	12,680 - 95,100	6.50
Over 142,650	Over 190,210	Over 95,100	6.75

2008

Taxable Income Brackets			Marginal
Single	Married, Joint	Married, Separate	Tax Rates
\$0 - \$9,700	\$0 - \$12,930	\$0 - \$6,470	4.60%
9,700 - 19,400	12,930 - 25,860	6,470 - 12,930	6.15
19,400 - 145,460	25,860 - 193,950	12,930 - 96,980	6.50
Over 145,460	Over 193,950	Over 96,980	6.75

2009

Taxable Income Brackets			Marginal
Single	Married, Joint	Married, Separate	Tax Rates
\$0 - \$10,220	\$0 - \$13,620	\$0 - \$6,810	4.60%
10,220 - 20,440	13,620 - 27,250	6,810 - 13,620	6.15
20,440 - 153,280	27,250 - 204,370	13,620 - 102,190	6.50
153,280 - 225,000	204,370 - 300,000	102,190 - 150,000	6.75
Over 225,000	Over 300,000	Over 150,000	7.75

2010

Taxable Income Brackets			Marginal
Single	Married, Joint	Married, Separate	Tax Rates
\$0 - \$10,070	\$0 - \$13,420	\$0 - \$6,710	4.60%
10,070 - 20,130	13,420 - 26,850	6,710 - 13,420	6.15
20,130 - 151,000	26,850 - 201,340	13,420 - 100,670	6.50
151,000 - 221,660	201,340 - 295,550	100,670 - 147,770	6.75
Over 221,660	Over 295,550	Over 147,770	7.75

2011

Taxable Income Brackets			Marginal
Single	Married, Joint	Married, Separate	Tax Rates
\$0 - \$10,180	\$0 - \$13,580	\$0 - \$6,790	4.60%
10,180 - 20,360	13,580 - 27,150	6,790 - 13,580	6.15
20,360 - 152,740	27,150 - 203,650	13,580 - 101,820	6.50
152,740 - 224,210	203,650 - 298,940	101,820 - 149,470	6.75
Over 224,210	Over 298,940	Over 149,470	7.75

2012

Taxable Income Brackets			Marginal
Single	Married, Joint	Married, Separate	Tax Rates
\$0 - \$10,570	\$0 - \$14,090	\$0 - \$7,040	4.60%
10,570 - 21,130	14,090 - 28,180	7,040 - 14,090	6.15
21,130 - 158,500	28,180 - 211,330	14,090 - 105,660	6.50
158,500 - 232,660	211,330 - 310,210	105,660 - 155,110	6.75
Over 232,660	Over 310,210	Over 155,110	7.75

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	32,230 c

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	32,809 c

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

2005	Single	Married-J	Married-S	Head-of-Household
Maximum Standard Deduction	$8,170	$14,710	$6,990	$10,550
Phase-Out Income	11,770	16,520	7,850	11,770
Phase-Out Rate	12.0%	19.778%	19.778%	22.515%
Maximum Income	79,853	90,895	43,192	34,404 c

2006	Single	Married-J	Married-S	Head-of-Household
Maximum Standard Deduction	$8,460	$15,240	$7,240	$10,930
Phase-Out Income	12,200	17,120	8,130	12,200
Phase-Out Rate	12.0%	19.778%	19.778%	22.515%
Maximum Income	82,700	94,175	44,736	35,690 c

2007	Single	Married-J	Married-S	Head-of-Household
Maximum Standard Deduction	$8,790	$15,830	$7,520	$11,350
Phase-Out Income	12,670	17,780	8,440	12,670
Phase-Out Rate	12.0%	19.778%	19.778%	22.515%
Maximum Income	85,920	97,818	46,462	37,016 c

2008	Single	Married-J	Married-S	Head-of-Household
Maximum Standard Deduction	$8,960	$16,140	$7,660	$11,570
Phase-Out Income	12,920	18,130	8,610	12,920
Phase-Out Rate	12.0%	19.778%	19.778%	22.515%
Maximum Income	87,587	99,736	47,340	37,742 c

2009	Single	Married-J	Married-S	Head-of-Household
Maximum Standard Deduction	$9,440	$17,010	$8,080	$12,190
Phase-Out Income	13,610	19,100	9,070	13,610
Phase-Out Rate	12.0%	19.778%	19.778%	22.515%
Maximum Income	92,277	105,105	49,923	39,763 c

2010	Single	Married-J	Married-S	Head-of-Household
Maximum Standard Deduction	$9,300	$16,750	$7,960	$12,010
Phase-Out Income	13,410	18,820	8,940	13,410
Phase-Out Rate	12.0%	19.778%	19.778%	22.515%
Maximum Income	90,910	103,510	49,187	39,183 c

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

	2011				2012			
	Single	Married-J	Married-S	Head-of-Household	Single	Married-J	Married-S	Head-of-Household
Maximum Standard Deduction	$9,410	$16,940	$8,050	$12,150	$9,760	$17,580	$8,350	$12,610
Phase-Out Income	13,560	19,040	9,040	13,560	14,070	19,750	9,380	14,070
Phase-Out Rate	12.0%	19.778%	19.778%	22.515%	12.0%	19.778%	19.778%	22.515%
Maximum Income	91,977	104,691	49,742	39,618 c	95,403	108,637	51,599	41,174 c

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.

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.

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.

Income Tax Check-Offs

Wisconsin provides individual income tax check-off procedures on the income tax forms through which taxpayers may make donations for a variety of specified purposes. From 1983 through 2000, there was a single option for making charitable donations along with filing the individual income tax, in the form of a check-off for endangered resources. Starting in 2001, a check-off was added for donations for operation and maintenance of Lambeau Field in Green Bay, and since then, nine additional check-offs have been created. In response to the increasing number of check-offs, 2011 Wisconsin Act 222 combined the breast cancer research check-off and the prostate cancer research check-off into a single check-off for cancer research. In addition, the Act established a procedure for limiting the number of check-offs in any tax year to ten. Under the procedure, the least used check-offs would temporarily rotate off the form, if more than ten check-offs have been created.

Table 15 reports the amounts donated through individual income tax check-off procedures for tax year 2011.

Table 15: Donations Through Individual Income Tax Check-Offs for Tax Year 2011

Endangered Species	$284,039
Lambeau Field	59,717
Breast Cancer Research	155,426
Veterans Trust Fund	94,478
Multiple Sclerosis Programs	78,048
Fire Fighter Memorial	34,816
Prostate Cancer Research	64,312
Military Family Relief Fund	114,059
Second Harvest Food Banks	119,749
Red Cross Wisconsin Disaster Relief	101,085

For tax year 2012, the breast cancer research and prostate cancer research check-offs were combined into a single check-off for cancer research, and a Special Olympics check-off was added.

Between 1977 and 2010, the individual income tax form included a check-off to provide funding for public financing of elections. Prior to 2010, the Wisconsin Election Campaign Fund (WECF) was the sole beneficiary, providing funding to eligible candidates for Supreme Court Justice, Governor, Lieutenant Governor, Attorney General, State Treasurer, Secretary of State, Superintendent of Public Instruction, State Senate, and State Assembly. In 2010, the check-off was expanded to include the Democracy Trust Fund, which provided grants to candidates for Supreme Court Justice, and those candidates no longer received grants from the WECF. Unlike the check-offs for charitable donations, a designation for the two funds did not affect the amount of tax liability or tax refund. The check-off was repealed by 2011 Wisconsin Act 32, and the check-off has not appeared on individual income tax forms since 2010.

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 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 previous 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, in general, 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 took effect in 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.

Under the 2005-07 biennial budget (2005 Act 25), state tax references were generally updated to the IRC in effect as of December 31, 2004. The individual income tax deduction for college tuition was increased, effective with tax year 2005, and scheduled to increase annually along with average tuition costs. The partial exemption for social security benefits was increased to a full exemption, starting in tax year 2008. Expansions to the existing deductions for medical insurance premiums were approved, to be phased-in over a four-year period beginning in tax year 2006. Act 25 increased an existing nonrefundable income tax credit for military income earned while stationed outside of the United States, effective with tax year 2006, and created an income tax check-off for donations to the Veterans Trust Fund. In addition, Act 25 created a refundable tax credit for property taxes paid by certain veterans and surviving spouses, effective with tax year 2005 (the credit was subsequently modified under 2005 Act 72 and 2007 Act 20). Finally, Act 25 also modified and expanded a number of business credits, including credits for development zones and the dairy investment credit (which was expanded to include non-dairy livestock).

Several additional business-related tax credits were modified and new credits were created under non-budget legislation during the 2005-06 legislative session as well. Revisions were made to the angel investment credit under Acts 49 and 97, both of which apply for taxable years beginning on or after January 1, 2005, and to the early stage seed investment credit under Act 97 (effective starting with tax year 2005). Development zone credits were expanded to include airport development zones under 2005 Act 487, effective for taxable years beginning on or after January 1, 2007. In addition, 2005 Act 361 created a new enterprise zone jobs credit, effective for taxable years beginning on or after July 1, 2007. A new credit for internet equipment used in the broadband market was created under 2005 Act 479, effective December 1, 2006, and 2005 Act 483 created two credits related to film production, both of which are effective for taxable years beginning on or after January 1, 2008. 2005 Act 74 created a tax credit for health insurance risk-sharing plan assessments, which is also effective for taxable years beginning on or after January 1, 2008.

In addition to the new and modified business tax credits, a new exemption was provided for interest income received on bonds or notes issued by the Wisconsin Aerospace Authority, effective April 29, 2006 (provided under 2005 Act 335). 2005 Act 362 modified existing laws related to depreciable property used in farming and to federal section 179 expensing (of business expenses that would otherwise be treated as capital expenses and depreciated) as they apply to farm business expenses of Wisconsin taxpayers. Act 362 specified that certain future changes to existing federal provisions on depreciation and section 179 would apply with respect to Wisconsin for individuals in the business of farming for tax years beginning on or after January 1, 2008, if the federal changes were made after December 31, 2005.

Finally, as noted, four new tax check-offs were created during the 2005-07 session. 2005 Act 25 created an individual income tax check-off for donations to the Veterans Trust Fund, starting with tax year 2005. The remaining three new check-offs all took effect for taxable years beginning on or after January 1, 2006, and include check-offs for donations to multiple sclerosis programs (2005 Act 71), the Fire Fighters Memorial (2005 Act 323), and for prostate cancer research (2005 Act 460).

The 2007-09 biennial budget (2007 Act 20) updated state tax references to include changes to the IRC enacted in 2005 and through November, 2006, except for IRC changes related to income and franchise taxation of regulated investment companies, real estate investment trusts, and related entities.

In addition, the Act made several changes related to deductions and exemptions, thereby changing the definition of Wisconsin taxable income. These include phasing in between 2008 and 2011 a deduction for medical care insurance premiums paid by an employee whose employer pays for some portion of the employee's health insurance costs, increasing the maximum college tuition deduction from twice the average amount charged at University of Wisconsin System four-year institutions for the most recent fall semester to the greater of that amount or $6,000 beginning in tax year 2009, modifying the college tuition deduction to apply to mandatory student fees as well as tuition expenses effective in tax year 2009, phasing in beginning in tax year 2009 a deduction for certain expenses related to child and dependent care that may be claimed under the federal credit for child and dependent care expenses over a four year period, and providing an exemption for interest paid on certain bonds issued by the Wisconsin Health and Educational

Facilities Authority starting with tax year 2009. For purposes of calculating Wisconsin AGI, the Act also requires non-residents and part-year residents to add back to federal AGI two items that are deductible under federal law and not otherwise taxable by the state. These include the domestic production activities deduction and the deduction for attorney fees and court costs pertaining to certain claims involving unlawful discrimination, the U.S. government, or the Social Security Act. In addition, Act 20 provided an individual income tax exclusion for up to $5,000 per person aged 65 or older for taxpayers with adjusted gross income of $15,000 or less ($30,000 or less for married-joint filers) for distributions from qualified retirement plans under the federal Internal Revenue Code, effective with tax year 2009.

Act 20 expanded three existing tax credits, created five new tax credits, and modified two existing tax credits. The veterans and spouses property tax credit was expanded effective with tax year 2009 with regard to the eligibility requirements for two of the four categories of credit recipients. Changes included extending the credit to veterans who are otherwise eligible and have been residents of Wisconsin for five consecutive years, eliminating the 65-year old age requirement, and changing the service disability threshold to include veterans being rated as being individually unemployable and, therefore, receiving 100% disability benefits. Act 20 expanded the angel investment credit and early stage seed investment credit by increasing the amount of credits that can be claimed each year, eliminating provisions requiring the credits to be added to income, requiring investments to be maintained for at least three years, and permitting investments in an additional type of business.

Act 20 created a dairy manufacturing facility investment tax credit for tax years beginning after December 31, 2006 and before January 1, 2015, an ethanol and biodiesel fuel pump tax credit for tax years beginning after December 31, 2007 and before January 1, 2018, a biodiesel fuel production tax credit for tax years beginning on or after January 1, 2009 and before January 1, 2013, a community rehabilitation program tax credit for tax years beginning on or after July 1, 2009, and an electronic medical records tax credit beginning after December 31, 2009. Finally, Act 20 modified the enterprise zones jobs tax credit, the film production services tax credit, and the film production company investment tax credit.

During the 2009-2010 legislative session, changes to the state individual income tax affected the rate and bracket structure, deductions to income, tax credits, and tax check-offs. In the 2009-11 biennial budget (2009 Wisconsin Act 28), the Legislature created a fifth tax bracket with a marginal tax rate of 7.75% for upper income taxpayers. In addition, the Act provided that the indexing adjustment for the tax brackets and the sliding scale standard deduction could not be negative, beginning with tax year 2012.

Act 28 modified the exclusion for long-term capital gains by reducing the exclusion for nonfarm assets from 60% to 30%, beginning in tax year 2009, and by creating a 100% exclusion for long-term gains reinvested in qualified new business ventures, beginning in tax year 2011. The Act postponed three deductions enacted in prior years by freezing each deduction's phase-in percentage for tax years 2009 and 2010 at the percentage in effect in tax year 2008. These included the deductions for health insurance premiums paid by employees whose employer pays some portion of the employee's health insurance costs, for medical insurance premiums paid by an individual who does not have an employer and who has no self-employment income, and for expenses related to child and dependent care. Also, the deduction for college savings accounts was modified to permit contributions where the beneficiary is the contributor's child, but the child is not a dependent.

Also, Act 28 generally updated state tax references to reflect the IRC in effect as of December 31, 2008, although a number of significant federal law changes were not included in the update. Subsequently, Act 161 updated IRC references to allow taxpayers with adjusted gross income over $100,000 to convert a traditional IRA to a Roth IRA without penalty and to recognize higher contribution levels to various types of retirement accounts, including IRAs, traditional 401(k) plans, 457 deferred compensation plans, savings incentive match plans for employees (SIMPLE plans), Roth 401(k) plans, and Roth 403(b) plans. Act 205 created a new type of debt obligation called conduit revenue bonds and provided a state income tax exclusion for interest on those bonds.

Provisions in Act 28 modified the itemized deduction credit to include casualty losses related to Presidentially-declared disasters and the earned income tax credit to allow advanced payments. Because this provision is tied to advance payments of the federal credit, which were discontinued, advance payments of the state credits have also been discontinued. The Legislature modified or created a number of business tax credits that may be claimed under the individual or corporate income taxes: angel investment (Acts 2, 28, and 265); beginning farm and farm asset owner (Act 28); biodiesel fuel production (Act 28); community rehabilitation program (Act 28); dairy manufacturing facility investment (Act 2); dairy farm modernization and expansion (Act 294); early stage seed (Acts 2, 28, and 265); enterprise zones credits (Acts 11, 28, and 267); ethanol and biodiesel fuel pump (Acts 28 and 401); film production services and film production company investment (Act 28); food processing plant and food warehouse investment (Act 295); jobs (Acts 28 and 265); meat processing facility (Act 2); medical records (Act 28); postsecondary education (Act 265); super research and development (Act 28); water consumption (Act 332); and woody biomass harvesting and processing (Act 269). These changes are described in greater detail in the Legislative Fiscal Bureau's informational paper entitled "Corporate Income / Franchise Tax."

Finally, two additional income tax check-offs were created in Act 28. The check-offs are for Second Harvest Food Banks in Wisconsin and for the Military Family Relief Fund, effective in tax year 2009. Act 89 expanded the State Election Campaign Fund check-off by increasing the amount of the check-off by $2 and designating the increase for the Democracy Trust Fund. Proceeds from the fund are used for public financing of state Supreme Court elections.

Changes to the state individual income tax during the 2011-2012 legislative session affected deductions to income, tax credits, and tax check-offs. Act 32 modified the deduction for contributions to college savings accounts and created a deferral and an exclusion related to capital gains tied to in-state investments. In addition, two business-related deductions were created. These include a deduction for jobs created by a business with gross receipts of $5 million or less (Act 5) and a deduction for pass-through entities that relocate to Wisconsin (Act 3).

Also, Act 32 generally updated state tax references to reflect the IRC in effect as of December 31, 2010, although a number of significant federal law changes were not included in the update. Also, the Act specified that employee-required contributions to the Wisconsin Retirement System must be considered as employer contributions under the IRC. In addition, the treatment of health savings accounts and health insurance benefits for non-dependent children was federalized in Acts 1 and 49, respectively.

Modifications were made to the dairy and livestock farm investment credit (Act 15), the earned income tax credit (Act 32), the angel and early seed investment tax credits (Acts 32 and 213), the dairy manufacturing facility investment tax credit (Acts 32 and 237), the jobs tax credit

(Act 32), and the film production services tax credit (Act 67). In addition, two business tax credits were created. These included the domestic production activities credit in Act 32, which was subsequently renamed the manufacturing and agriculture credit in Act 232, and the veteran employment credit in Act 212. The Act 32 changes to the earned income tax credit reduced the credit percentages for claimants with two children from 14% to 11% and for claimants with more than two children from 43% to 34%, effective with tax year 2011. The credit percentage for claimants with one child was not changed.

Finally, Act 32 eliminated the check-off for the Democracy Trust Fund and the Wisconsin Election Campaign Fund. Also, Act 32 created a check-off for the Red Cross, and Act 76 created a check-off for Special Olympics. In response to the increasing number of check-offs, Act 222 combined the two cancer-related check-offs and established a procedure for limiting the number of check-offs in any tax year to ten.