



Improving Wisconsin's Economy

Governor Walker's Tax Reforms for Individuals and Businesses

The Chamber of Manitowoc County
Business Connects with Government
September 9, 2013
Secretary Rick Chandler
Department of Revenue



Key Goals for DOR

- Vision: *"Make taxpaying less taxing"*
- Key goals:
 - Implement good tax policy, with an emphasis on job creation
 - Provide excellent customer service
 - Operate efficiently
 - Maintain a positive work environment



Creating a Good Business Climate

- Key factors:
 - Workforce
 - Education system
 - Tax climate
 - Regulatory climate
 - Infrastructure
 - Quality of life
 - Government services
 - Government finances



The Importance of Tax Climate

- Taxes are an important factor affecting a state's business climate
 - Overall tax burden is important
 - Tax structure is important
 - Taxes directly affecting businesses are important (e.g., corporate income tax, property tax, sales tax, unemployment insurance taxes)
 - Taxes affecting business employees are important (e.g., individual income taxes, property taxes)
 - "Don't price yourself out of the market"



Tax Reform Goals

- Reduce Wisconsin's above-average tax burden
 - Put more money in people's pockets
 - Make Wisconsin more competitive with other states
 - Middle class income tax relief is a priority
- Create business tax incentives that highlight Wisconsin's improved business climate
- Provide broad-based tax relief



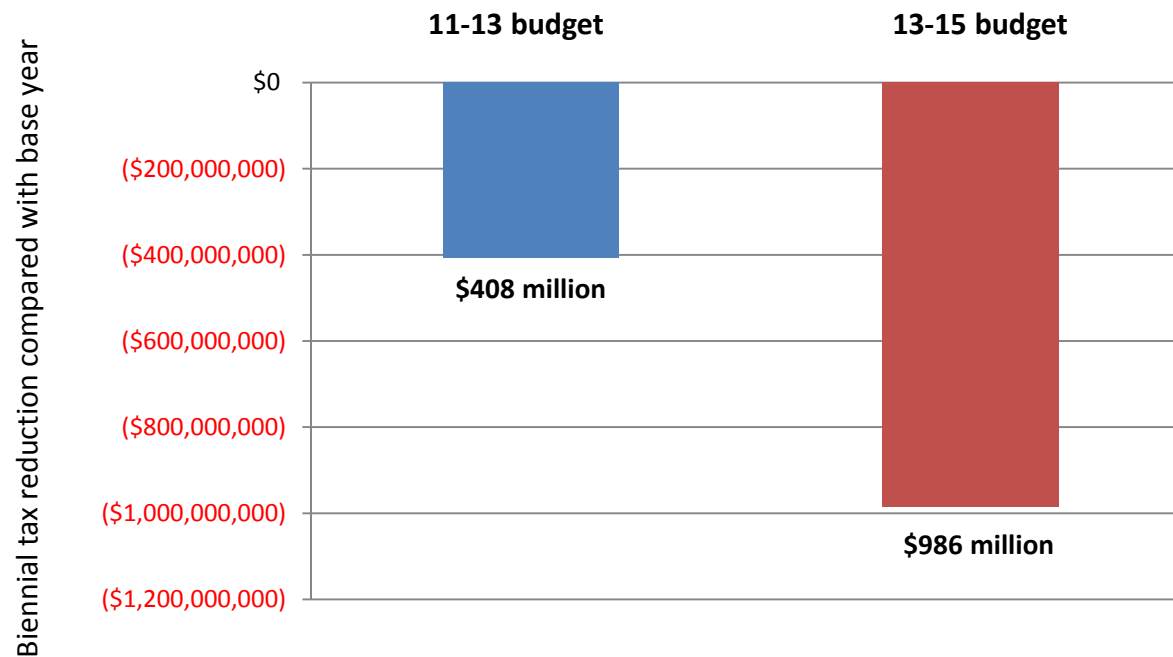
Governor Walker's Tax Reform Initiatives

Highlights of Reforms Implemented in 2011 and 2013

- **Income tax reform initiative**
 - Rate reductions, focused on middle class rate cuts
 - Increased deductions for health care, child care and education costs
 - Tax simplification
- **Business tax incentives**
 - Manufacturing and agriculture tax credit
 - Investment incentives
- **Total tax reduction of \$1.4 billion in 2011 and 2013**

Reversing Direction on State Taxes

State taxes have been cut in the most recent two budgets



Total tax cuts: \$1.4 billion in two budgets

Total Tax Cuts in 2013-15 Budget Bill

Tax Law Change	FY14 Tax Reduction	FY15 Tax Reduction
Individual income tax – Rate cuts	\$330 million	\$322 million
Manufacturing and agriculture credit – 2011 Act 32 phase-in	32	71
Health insurance premium deduction – 2007 Act 20 phase-in	54	60
Child care deduction – 2007 Act 20 phase-in	3	6
K-12 private school tuition deduction	-	30
Other changes	25	53
Total	\$444 million	\$542 million

Total tax cuts: \$986 million in 2013-15 budget bill






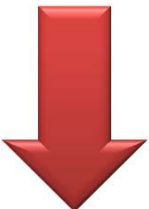
Income Tax Reform Initiative

Broad-Based Rate Reduction

- Significant tax rate reductions were included in 2013 budget bill
 - Taxes are reduced by \$650 million
 - Rates are reduced for all brackets
 - Largest reductions are for middle class taxpayers
 - Provides broad-based tax relief

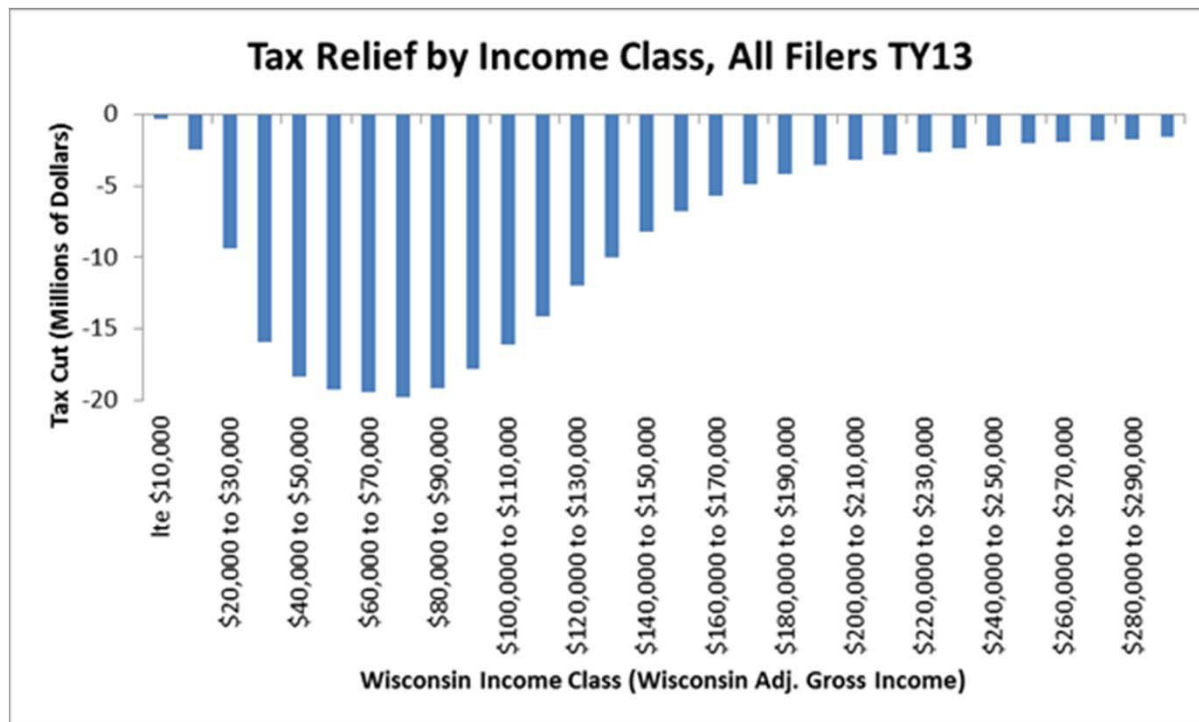
Governor Walker's Tax Reform Initiative

Reduces Income Tax Rates

Tax Rate Reduction					
Rate	Bottom Rate	2 nd Rate	3 rd Rate	4 th Rate	Top Rate
Before	4.60%	6.15%	6.50%	6.75%	7.75%
					
After	4.40%	5.84%	6.27%	7.65%	

Overall Income Tax Reduction From Rate Cuts: \$650 million
 (Amount of reduction in budget bill for Tax Years 2013 and 2014)

Income Tax Payments Are Reduced for Taxpayers at All Income Levels Middle Class Taxpayers See the Greatest Relief





Taxpayers Will See Significant Savings From Rate Cuts

- Typical family will see income tax savings of \$345 for two years of 2013-15 budget cycle
 - Savings of \$173 per year for Tax Years 2013 and 2014
 - Family with two adults working, two children and median family of four income of \$80,607
 - Tax liability under current law would be \$3,510 per year



Income Tax Reform Initiative

Increased Deductions

- State tax deduction for Health Savings Accounts (passed in 2011)
 - Average tax savings of \$423 over two years
- Health insurance premium payments for employees become 100% deductible (included in 2013 budget bill)
 - Average tax savings of \$246 over two years



Income Tax Reform Initiative

Increased Deductions

- Increased child care deduction (included in 2013 budget bill)
 - Average tax savings of \$300 over two years
- K-12 private school tuition deduction (included in 2013 budget bill)
 - Tuition payments are deductible, up to \$4,000 per child through grade 8 and \$10,000 per child for grades 9-12
 - Typical tax savings of up to \$250 per child through grade 8 and \$627 per child for grades 9-12 for Tax Year 2014



Income Tax Reform Initiative

Tax Simplification

- Tax code is reformed and simplified:
 - Federalization efforts are continued
 - Federal depreciation and Section 179 expensing provisions are adopted
 - 15 additional Internal Revenue Code provisions are adopted
 - 17 credits and deductions are eliminated
 - Two brackets are combined



Business Tax Incentives

- Longstanding business tax incentives include:
 - Manufacturing machinery and equipment property tax and sales tax exemptions
 - Research and development tax credit
 - Angel investment tax credit
- Newly-adopted business tax incentives in 2011 include:
 - Manufacturing and agriculture tax credit
 - Investment incentives (capital gains exemption for investments in Wisconsin businesses)



Manufacturing and Agriculture Tax Credit

- Credit applies against taxes on income from manufacturing and agriculture activity in Wisconsin
- Phased in over four years:
 - Tax year 2013 = 1.875%
 - Tax year 2014 = 3.750%
 - Tax year 2015 = 5.526%
 - Tax year 2016 and beyond = 7.500%
- Offsets top tax rates of 7.90% (corporate income tax) and 7.65% (individual income tax)



Rationale for Credit

- Manufacturing and agriculture have historically been the twin drivers of Wisconsin's economy
- Multiplier effect: When manufacturing and agriculture thrive, all other sectors of the economy will thrive:
 - Construction, real estate, retail, tourism, hospitality, professional services, financial services and other sectors will all benefit from multiplier effect



Benefits of Credit

- Part of a broad-based, sustained effort to reduce taxes and improve Wisconsin's tax structure
- Enables us to tout our tax structure as an advantage for manufacturing and agriculture businesses, along with our other advantages
- Credit will work alongside and compliment other credits and incentives

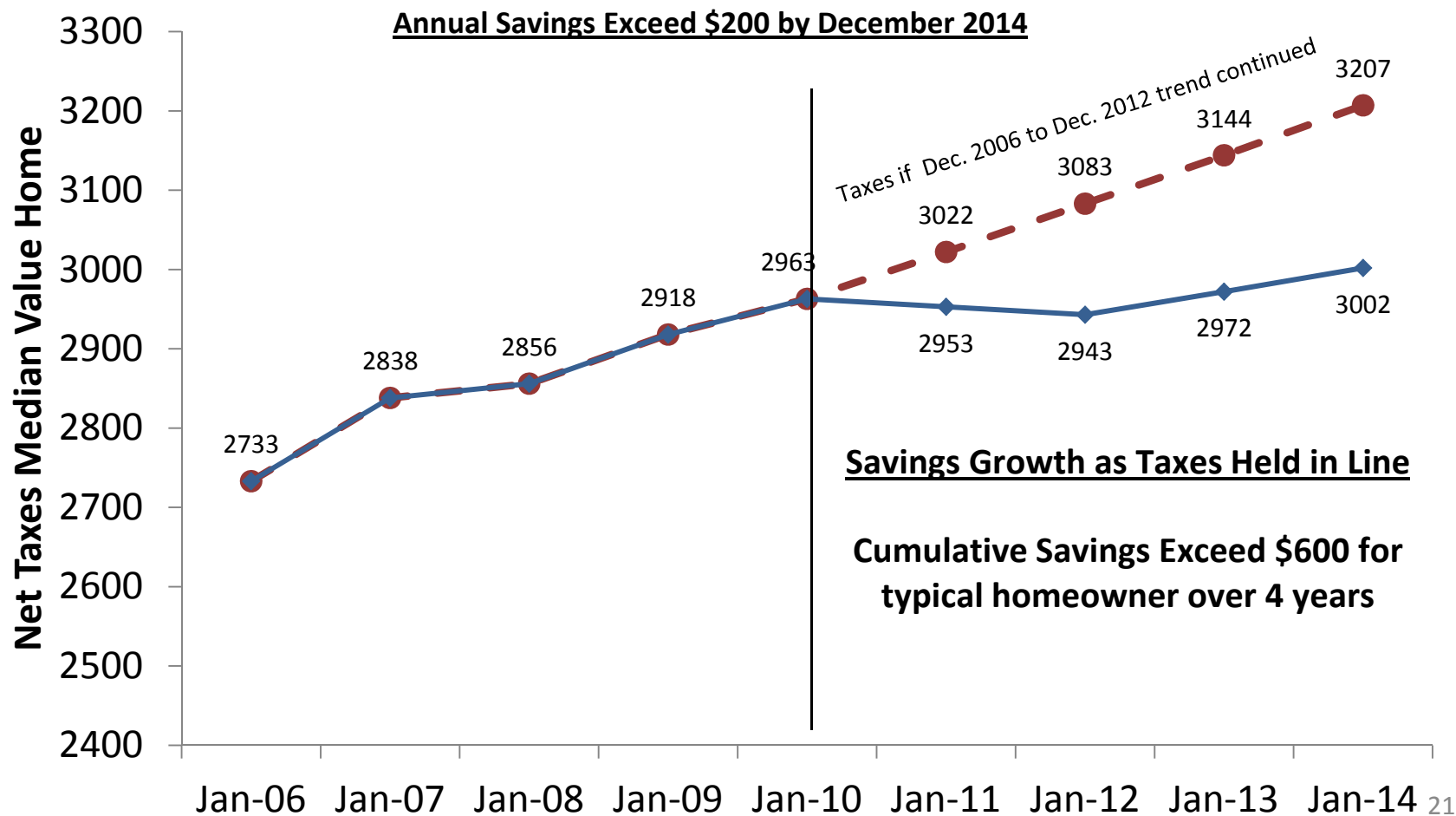


How Credit Works

- Businesses apportion income to Wisconsin based on the percentage of their sales in Wisconsin
- The percentage of their income from Wisconsin manufacturing and agriculture activities is calculated
- The credit applies to the taxes on their Wisconsin manufacturing and agriculture income

Holding the Line on Property Taxes

Property taxes have been controlled in the most recent two budgets





Tax Relief is an Ongoing Effort

- The tax relief in the 2013-15 budget is possible due to spending control and sound fiscal management
- Tax reduction will continue in the future as the Wisconsin economy expands and more jobs are created



2011-13 Budget

- January 2011: Projected \$3.6 billion deficit
- June 2013: Ending balance of approximately \$600 million
- Stabilization fund deposits:
 - \$261 million deposited over past two years
 - Revenues have been greater than initially projected



2013-15 Budget

- No longer in crisis management mode
- Sound fiscal management enables:
 - Tax reductions
 - Sustainable spending increases in priority areas
 - Projected positive ending balance in June 2015



Current National Economic Conditions

- Fundamentals are improving
 - Housing market resurgence
 - Consumers are cautiously increasing spending
 - Business investment is growing
 - U.S. energy boom is creating jobs
- Fiscal policy headwinds
- Uncertainty about federal policies



Current Wisconsin Economic Conditions

- Job gains in 2011, 2012 and 2013:
 - Unemployment rate below national average
 - Manufacturing and tourism sectors growing at above-average rates
 - Private employment growth since start of recession above most Great Lakes states
 - Initial unemployment insurance claims below pre-recession levels
- Housing reviving (building permits increasing)



Future National Economic Outlook

- Global Insight: The fundamentals for solid growth in the U.S. economy are in place for 2014 and 2015:
 - Employment will increase gradually
 - Moderate fiscal tightening will continue
- Downside risks:
 - Continued uncertainty about federal policies
 - Middle East conflict
 - Slowdown in emerging nation economies
 - Soft economy in Europe



Forecast for GDP Growth

- Real national GDP growth will pick up in 2014 and 2015:
 - 2013 = 1.5%
 - 2014 = 2.7%
 - 2015 = 3.5%



Wisconsin Revenue Estimates

- FY13 collections:
 - Actual revenue collections were greater than estimates
 - Some one-time gains due to shift of income into 2012
- Estimated revenue growth (before tax law changes):
 - FY14 = 2.1%
 - FY15 = 3.6%

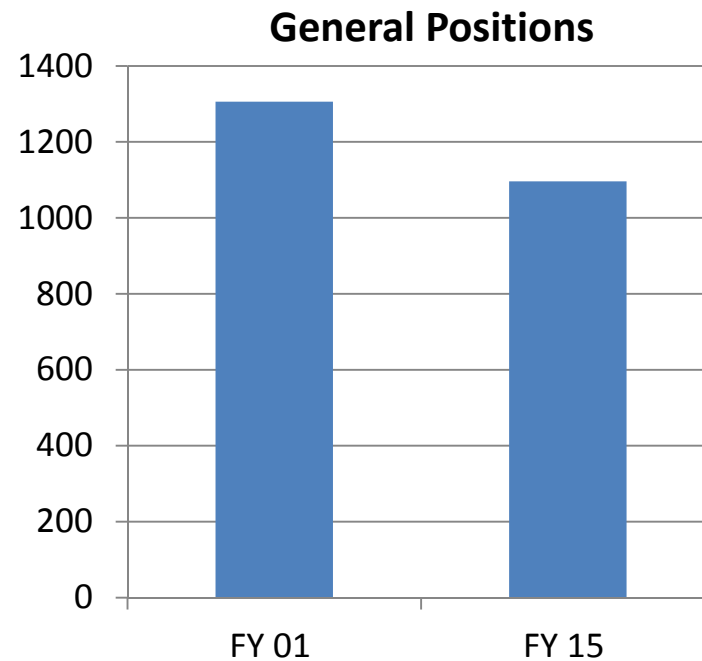


DOR Customer Service Improvements

- Improved website
- "Plain language" initiative
- State-of-the-art customer call center
- Wide range of online services, including *My Tax Account*
- Streamlined audit processes

DOR Has Been "Doing More With Less"

DOR positions have been reduced by 16%
(210 positions) since 2001





For More Information ...

revenue.wi.gov

- Tax Incentives for Businesses webpage
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