

Latest Wisconsin Income Tax Rate Cut Will Lower Returns

In the United States, the antics attempted on April Fools' Day often provide an amusing way to start the month. But for many people, turning the calendar from March to April also means that the deadline to file state and federal income tax returns is quickly approaching. This year, due to a holiday in the District of Columbia, the April 15 deadline is extended until April 18. Wisconsinites get another reprieve of sort in that many will pay less state income tax than last year, and most will pay significantly less than they did a decade ago.

■ The Income Tax

Like most states and the federal government, Wisconsin imposes a graduated income tax where the tax rate rises as income increases. Wisconsin currently has four income tax rates and thus, four taxable income brackets. For single filers, any taxable income (income minus deductions and exemptions):

- Less than \$12,120 is taxed at 3.54%
- From \$12,120 to \$24,250 is taxed at 4.65%
- From \$24,250 to \$266,930 is taxed at 5.3%
- Above \$266,930 is taxed at 7.65%

Similar brackets with the same rates but different income cutoffs apply to married couples filing jointly and married couples filing separately.

A rate reduction in any bracket provides a tax cut to filers with taxable incomes in that bracket as well as filers with higher taxable incomes. In other words, all taxpayers benefit from a cut in the lowest rate because they all have some income to which the lowest rate is applied. However, only high-income taxpayers benefit from a cut in the top rate.

■ Reducing Rates

The state of Wisconsin reduced income tax rates five times from 2013 to 2021. The first cuts occurred in 2013 when the number of income tax brackets was reduced from five to four and rates were cut across the board. The bottom rate was reduced further in 2014.

Rates for the bottom two brackets were reduced again in tax years 2019 and 2020. Finally, in 2021, the rate was cut for the third bracket. This rate cut applies to single filers with taxable incomes above \$24,250 and married couples filing jointly with taxable incomes above \$32,330.

The table below shows the cumulative rate reductions from 2012 to 2021. It also shows the percentage point change in the rates.

	BOTTOM BRACKET			TOP BRACKET	
2012	4.60%	6.15%	6.50%	6.75%	7.75%
2021	3.54%	4.65%	5.30%	5.30%	7.65%
% Change	-23.0%	-24.4%	-18.5%	-21.5%	-1.3%

Tax Impacts

To show the impacts of the rate cuts, income taxes for hypothetical taxpayers were calculated using the current tax brackets (taxes filed in 2022 based on 2021 income) and then recalculated using the 2012 rates. This exercise does not account for differences in deductions or credits that can vary widely among filers.



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The tables below show the results, at various income levels, for a single filer and a married couple with two children. On a percentage basis, the income tax reductions are about 20% at most income levels. The exceptions are at high incomes.

Taxpayers with very high incomes had their income taxes reduced significantly due to the rate reductions in the lower brackets. However, the rate in the top bracket changed little, so as more of their incomes are subject to that higher rate, the tax cut percentage falls.

If, instead of percentages, one looks at the reductions

in dollar terms, a different picture emerges since those with higher incomes pay more in taxes. The 23% cut for a married couple with taxable income of \$15,031 is \$159 while the 7% reduction for the couple with nearly \$1 million in taxable income is more than \$5,000.

■ Conclusion

With tax day quickly approaching, many Wisconsinites may feel like they are paying too much in state income taxes. Looking back at the reductions over the past decade may make filing this year's return a little less vexing. ■

SINGLE

Total Income	\$23,000	\$33,000	\$80,000	\$250,000	\$350,000	\$500,000
Taxable Income	\$11,952	\$23,152	\$75,792	\$249,300	\$349,300	\$499,300
2021 Rates	\$423	\$942	\$3,725	\$12,921	\$20,156	\$31,631
2012 Rates	\$550	\$1,236	\$4,654	\$16,101	\$23,674	\$35,299
\$ Cut	\$127	\$294	\$929	\$3,180	\$3,518	\$3,668
% Cut	23.0%	23.8%	20.0%	19.7%	14.9%	10.4%

MARRIED FILING JOINT - TWO CHILDREN

Total Income	\$36,000	\$50,000	\$120,000	\$250,000	\$500,000	\$1,000,000
Taxable Income	\$15,031	\$31,800	\$115,645	\$247,200	\$497,200	\$997,200
2021 Rates	\$532	\$1,299	\$5,740	\$12,712	\$29,283	\$67,533
2012 Rates	\$691	\$1,705	\$7,153	\$15,716	\$34,004	\$72,754
\$ Cut	\$159	\$406	\$1,414	\$3,004	\$4,721	\$5,221
% Cut	23.0%	23.8%	19.8%	19.1%	13.9%	7.2%