

# WISCONSIN BUDGET PROJECT

*An initiative of the Wisconsin Council on Children and Families, Inc.*



## **Additional Options for Closing Wisconsin's Budget Shortfall**

May 4, 2009

Governor Doyle's budget bill uses a number of revenue uppers to help close the state's huge deficit, but still makes very deep cuts in vital state programs and local aid. In addition, the worsening recession is likely to throw the budget further into the red before legislative action on the budget bill is completed. To help close the budget shortfall, there are several options for targeted revenue increases that the legislature could adopt, without having to rely on broad-based tax increases. Those options include:

### **Treating capital gains like ordinary income**

- **Only 8 other states provide special tax treatment for capital gains** – Wisconsin is one of only 9 states that don't treat capital gains the same as ordinary income.
- **Wisconsin has the most generous tax exclusion for capital gains** -- Wisconsin currently exempts 60 percent of capital gains from taxation, which is the largest exclusion in the U.S. The Governor proposes reducing the exclusion to 40%, which would still be the second or third largest exemption for capital gains. A recent analysis by Citizens for Tax Justice found that in the 9 states with capital gains tax breaks, those provisions reduced taxes by an estimated \$663 million in 2008, and Wisconsin's tax break for capital gains accounted for 43 percent of the national total!
- **Treating capital gains like regular income would increase revenue in Wisconsin by about \$499 million in 2009-11 (compared to \$181 million from the Governor's proposal)** – A Legislative Fiscal Bureau analysis early this year estimated that repealing Wisconsin's capital gains tax break would generate about \$499 million in 2009-11. That's about \$318 million more than the Governor's proposal.
- **Nearly all of the benefit of the capital gains exclusion goes to very high income taxpayers** – The analysis by Citizens for Tax Justice found that the top 5% of Wisconsin income taxpayers, those with income over \$151,900 per year, get 83% of the benefit of the current capital gains exclusion, and the top 1% get 64% of the total benefit.

### **Restoring Wisconsin's estate tax**

- **Wisconsin's estate tax impacts only a small number of wealthy Wisconsinites.** Wisconsin's estate tax is our most progressive tax because it affects only people who have estates over \$675,000 (or \$1.35 million for a married couple). The tax applies to only about 2 percent of all who die in Wisconsin – about 1,500-2,000 estates each year are subject to the tax. Though it applies to just this very small portion of all estates, the estate tax brings in more than \$100 million per year in revenue.
- **It's probably a mistake to assume that the estate tax will automatically be restored in 2011.** Wisconsin's estate tax expired because of a change in federal law, affecting the majority of states – those whose estate taxes were tied to a former law allowing the state

taxes to be offset against federal estate taxes. That law was suspended, but if no changes are made in the next couple of years it would return in 2011, which would restore the Wisconsin estate as well. However, few people following the federal estate tax issue in Washington think that will happen, since all or nearly all of the major proposals, including the President's proposed compromise, would permanently repeal the offset for state taxes. If that happens, only states that decouple from federal law will have estate taxes.

- **Many states are decoupled from federal law, which enables them to continue to have estate taxes.** There are currently 23 states that have either an estate tax (18 states) and/or an inheritance tax (7 states), including two states that have both. Those 23 states include 3 of Wisconsin's neighbors: Illinois, Iowa and Minnesota.
- **Elimination of the estate tax is not a cost-effective way of promoting economic growth in Wisconsin.** A January 9, 2007 paper by the Center on Budget and Policy Priorities (CBPP) notes that a portion of the benefits of estate tax repeal accrues to heirs who live in other states. Those dollars leave our state and are spent elsewhere. The CBPP paper concludes that in contrast to estate tax cuts, "public expenditures and even many other types of tax cuts are much more likely to lead to spending within a state's borders, thereby providing some economic stimulus within the state."

#### **Improving collection of taxes owed to Wisconsin**

- **Wisconsin is owed more than \$1 billion in uncollected taxes.** The Department of Revenue recently calculated that the total of unpaid taxes, interest and fees owed to the state as of July 1, 2008 was \$1.03 billion.
- **Beefing up tax collection efforts could yield about \$175 million in 2009-11.** A report issued in January 2009 by the Institute for Wisconsin's Future concluded that Wisconsin could generate nearly \$100 million a year by increasing DOR tax-enforcement efforts, with a net gain (over the added costs) of about \$175 million. The IWF analysis was based on a comparison of enforcement efforts in Wisconsin and Minnesota and the diverging trends in the two states with respect to staffing and unpaid taxes. The report can be found on the IWF website at:  
<http://www.wisconsinsfuture.org/publications/taxes/InvestingInRevenue.pdf>

#### **Eliminating the property tax exemption for business computers**

- **The state must pay about \$76 million per year to reimburse local governments** for the property tax exemption for business computers, cash registers and fax machines. As a result, repealing that property tax exemption would reduce state spending by that amount.
- **Repealing the exemption could save the state \$76.8 million in 2010-11,** but wouldn't affect the state budget in 2009-10 because the payment that year is for the exemption in 2008.