

# **Simplifying Wisconsin Taxes**

**How a proliferation of tax credits, deductions and exemptions has complicated the tax system**

*Institute for Wisconsin's Future*

*May 2009*

Jack Norman  
Dennis Collier

## Executive Summary

Wisconsin's tax structure has become too complicated.

There are many reasons why this is a problem. It makes compliance with tax laws more difficult and more costly for taxpayers of all kinds. It makes oversight more difficult and more costly for state agencies. It creates more opportunities for unscrupulous taxpayers to game the system. It makes it more difficult for lawmakers to understand the impact of the tax changes they implement. It increases the tax gap, which is the difference between taxes that should be paid and taxes that actually are paid. It fuels public cynicism about the fairness of taxes. It hides unfair taxes. And because so much of the complexity is due to the creation of tax exemptions, it reduces revenue at a time of great fiscal stress.

A major source of the problem is the rapid growth of tax credits, deductions and exemptions. While a few are intended to offer tax relief to individual or family filers, most are designed for business. Because of new laws that allow many business taxes to be paid through the individual income tax form, new business credits automatically complicate this form and its instructions.

This report will identify more than one hundred tax breaks that have become law in Wisconsin since 1987—exemptions, deductions and credits. Another several dozen are already in this year's legislative pipeline.

In theory, the state recognizes the need to monitor tax exemptions. That's why the Legislature requires the Department of Revenue to prepare a summary of all tax exemption devices and their fiscal impact every other year. The latest report, *Summary of Tax Exemption Devices*, released in February 2009, is 88 pages of detail.

The *Summary* notes that exemptions “can be a powerful tool for providing economic development incentives or for mitigating the regressive qualities of certain tax types.” But it emphasizes that “exemptions always come with a cost. Exemptions reduce revenues otherwise available for programs or for tax relief...It is critical that policymakers understand both the costs of exemptions and their effectiveness at achieving their intended goal.”<sup>1</sup>

In practice, there is too little scrutiny of tax exemptions or of their impact. As a result, the number of new exemptions grows as groups press for new ways to reduce their own taxes and there is little re-evaluation of existing loopholes. Thus the tax system becomes more complex and the cost-benefit analysis of each specific exemption becomes murkier.

The solution to the problems of tax complexity is to begin simplifying the tax code by reducing and rationalizing the number of exemptions, deductions and credits. A first step would be to require mandatory sunset dates on all tax exemptions, which would require each to be examined and re-instated only if the benefit overrides the cost. And until the thicket of tax breaks is cleared, there should be a legislative moratorium on all new breaks. State policymakers must define the goals and parameters of tax expenditure

policies to ensure a framework for responsible evaluation and decision-making regarding who should be excused from tax responsibility and how that privilege will provide a greater overall benefit to Wisconsin and its citizens.

## **I. The Problem: A tax system that is too complicated**

The size of the most basic tax form has doubled in 20 years. In 1987, Wisconsin's Form 1—the 'basic' form for individuals—was 28 lines on a single page, with four schedules on a second page. The instructions were 23 pages. For 2008, Form 1 was 57 lines on three pages, with two schedules on a fourth page. The instructions were 46 pages.<sup>2</sup>

Tax complexity has for years drawn strong criticism from reformers of all political and economic persuasions. There is consensus that the nation's overall tax system is too complicated and that "this heavy burden of complexity affects the entire spectrum of taxpayers, from low-income individuals to multi-billion dollar corporations," as the American Bar Association puts it.<sup>3</sup>

From the conservative side of the spectrum, the Heritage Foundation notes that "one of the main reasons that the tax gap exists is that the tax code is too complex and confusing."<sup>4</sup> From the liberal side, the Center on Budget and Policy Priorities makes the same point: "Tax simplification—from technical steps to harmonize the wide range of definitions and rules in the tax code to more sweeping reform—could reduce the non-compliance rate and potentially raise tax revenues without an increase in tax rates."<sup>5</sup>

From the political center, the Brookings Institution highlights the clash between the ideal of tax simplicity and the reality: "The notion that taxes should be simpler is one of the very few propositions in tax policy that generates universal agreement. The fundamental paradox of tax simplification is that, although everyone thinks taxes should be simpler, almost every year tax policy becomes more complex."<sup>6</sup>

One long-time critic of tax complexity is the U.S. Internal Revenue Service itself, from IRS directors to the agency's in-house advocate for taxpayers, National Taxpayer Advocate Nina E. Olson. In her most recent report to Congress, in December 2008, Olson wrote that "the most serious problem facing taxpayers is the complexity of the Internal Revenue Code."<sup>7</sup>

Olson estimated "that the costs of complying with the [federal] individual and corporate income tax requirements in 2006 amounted to \$193 billion—or a staggering 14% of aggregate income tax receipts."<sup>8</sup> If that same 14% figure were applied to Wisconsin's income taxes, it would suggest a cost-of-compliance of about one billion dollars. Even if this estimate is ten times too high, that would still mean that the time it takes to comply with state tax requirements is worth over \$100 million, based on typical hourly wage rates.

## **II. The Cause: An unending stream of new tax breaks**

Why have the state's income tax form and instructions doubled in size? The primary reason is the proliferation of new exemptions, deductions and credits that require space on the return and additional instructions.<sup>9</sup>

The growth of tax exemptions can be quantified by looking at the size of Wisconsin's tax laws. Chapter 71 of the Wisconsin statutes covers the state income tax. In 1988, Chapter 71 contained 90,348 words. Twenty years later, that had grown to 222,819.<sup>10</sup>

Multiplying like rabbits, tax credits have caused income tax laws to grow much more wordy and complicated. The number of words devoted to tax credits more than quadrupled, 15,114 to 67,100. By 2008, nearly one-third of the income tax section was devoted exclusively to tax credits. See Appendix I for a list of business tax credits implemented since 1987.

Tax laws and forms get more complex because new tax breaks come—but rarely go. The progressive Institute on Taxation and Economic Policy says that “the main source of complexity in state income taxes is the bewildering array of special tax breaks targeted to particular groups.”<sup>11</sup> The libertarian Cato Institute agrees, saying that too often, legislators “denounce the tax code's complexity” in front of TV cameras, and then, when the cameras are gone, “vote for more special interest tax breaks.”<sup>12</sup>

A good starting point for looking at Wisconsin's tax system is 1987. By that year, major state and federal income tax reforms enacted in the mid-1980s were fully in place. These included Wisconsin's adoption of joint filing for married couples, along with the last effort to simplify the system by eliminating exemptions, deductions and credits while lowering the tax rates—the state's top income tax rate dropped from 10.0% in 1985 to 7.9% in 1986 and 6.93% in 1987. Since then, there have been further rate cuts and an expansion of deductions, but no simplification. Instead, the system has become more complex as new tax breaks are enacted, benefiting select taxpayers.

### **A. Let's start at the very beginning—defining taxable income**

There are multiple steps in determining income tax. The first step is to calculate how much of the taxpayer's income is actually taxable. Like most states with an income tax, Wisconsin starts its tax calculation with federal adjusted gross income (AGI) from the federal Form 1040.<sup>13</sup> This is a major assist for state taxpayers, who already report wages, interest, dividends, pensions, other income and adjustments on the federal Form 1040. Because Wisconsin starts its tax calculation with federal AGI reported on Form 1040, state taxpayers need not repeat this calculation.

However, federal and Wisconsin AGI are not identical.<sup>14</sup> State taxpayers have to add some income taxed by Wisconsin but not by the federal government and subtract other income subject to federal but not Wisconsin tax. They also may subtract some expenses

deductible under Wisconsin but not federal law. Explaining it all took four pages of instructions in 1987. By 2008 that had grown to nearly a dozen pages.

At least eleven new kinds of state deductions from income have been recognized since 1987. These are:

- Medical care insurance premiums<sup>15</sup>
- Long-term care insurance premiums
- Tuition and fees to Wisconsin post-secondary schools and to Minnesota schools covered by the tuition reciprocity agreement between the two states<sup>16</sup>
- Adoption expenses
- Contributions to state college savings or tuition plans
- Gain from the sale of a business or farm to a child or other related person
- Unreimbursed expenses related to human organ donation
- Exemptions for Social Security benefits
- Exemptions for active duty pay for members of the Reserve or National Guard<sup>17</sup>
- A new subtraction for child care expenses will take effect in 2009<sup>18</sup>
- And also beginning in 2009, a subtraction for retirement benefits up to \$30,000.<sup>19</sup>

In addition, there are new exemptions for income from multiple kinds of bond interest, exacerbating the increased complexity. These include bonds issued for the following purposes:

- Housing for the elderly
- Affordable housing
- Local exposition districts
- Local cultural arts districts
- Baseball and football stadiums
- Wisconsin Aerospace Authority
- And in 2009, a new exemption for interest on Wisconsin Health and Educational Facilities Authority bonds for the purchase of information technology.

Finally, since 1987 the state has made more complex the final step in determining taxable income. In 1987, there was only a simple standard deduction to convert state AGI into taxable income. By 2008, taxpayers could also subtract personal exemptions for themselves, spouses and dependents, and an additional amount for filers and/or spouses age 65 or older.

## **B. A second step, determining what you owe**

Having calculated taxable income, taxpayers can calculate their gross tax. But a variety of tax credits can reduce that gross tax in order to yield the ultimate net tax. New credits since 1987 include the following:

- Armed forces member credit for active duty pay for service outside the U.S.
- Working families tax credit<sup>20</sup>

- Earned income tax credit for low-income workers with children
- Repayment credit for amounts included as income in earlier years but repaid
- Farmland tax relief credit for property taxes on agricultural land
- Property tax credit for veterans and their surviving spouses
- And a long list of business tax credits, which will be discussed below.

It gets more complicated, with additional items involved in converting net tax (after credits) into what a taxpayer actually owes. Taxpayers whose Wisconsin business activities have gross receipts exceeding \$4 million are required to add on a recycling surcharge.<sup>21</sup> Residents making purchases from out-of-state retailers that do not collect the Wisconsin sales tax (this includes a great many retail purchases on the Internet) are required to add on the tax on those purchases.<sup>22</sup>

Want to voluntarily contribute to a cause? In 1987 there was one option, the Endangered Resources Fund. By 2008, new choices included the following:

- Packers football stadium
- Breast cancer research
- Veterans Trust Fund
- Multiple sclerosis
- Firefighters memorial
- Prostate cancer research.

### **C. Now, there are business tax credits to consider**

Two major developments regarding business taxes have greatly complicated Wisconsin income taxes since 1987. One was the creation of new ways of organizing businesses, motivated in large part by the desire to give business owners more tax options. The other was the proliferation of tax credits to give special treatment to select kinds of business activities.

In 1987, there was only a single business-related credit on the individual income tax form—the farmland preservation credit. In 2008, there were so many that in addition to additional lines on Form 1 itself, an entirely new attachment—Schedule CR—was created to handle the large number of potential credits. Why are all these business credits making the individual tax forms so much more complicated? Because of the creation of new forms of business organization that can be taxed through the individual income tax.

In 1993, the Legislature authorized a new way to do business in Wisconsin: the limited liability company (LLC), an entity that combines the limited liability protections of a corporation with the tax advantages and management flexibility of a partnership. A partnership (and an LLC) does not have to file its own tax return. Rather, taxes are paid through the income tax returns of its owners. The LLC has become the predominant form of self-definition for new businesses in the state. In fiscal year 1996, 8,866 businesses filed with the Wisconsin Department of Financial Institutions as corporations, compared

to 3,478 as LLCs. In 2008, by contrast, 26,162 businesses filed as new LLCs, compared to just 4,074 as corporations.<sup>23</sup>

Even among corporations, there has been rapid growth in what are known as “S corporations” in contrast with the more traditional “C corporation.” The tax difference—the main reason for choosing the S corporation option—is that business earnings to its owners are taxed as individual income rather than as corporate income. In 1996, 62% of corporations filing Wisconsin taxes were C corporations and filed a corporate tax return. By 2005, only 46% of corporations were C corporations; the rest were S corporations that paid taxes through their owners’ individual tax returns.<sup>24</sup>

Tax credits are straightforward subtractions from the tax that is owed. The first new business credits were development zone credits, available beginning in 1988 for the following activities in a designated geographical zone:

- Investment
- Location expenses
- Research
- Sales taxes paid
- Credits for jobs created.

These credits have been replaced by environmental remediation and job creation and retention credits, though credits from years prior to their repeal may still be claimed if they have not been used.

In addition, new types of development zones were created, some with the same jobs and environmental remediation credits available in existing zones, some with new capital investment and property tax credits. These include:

- Enterprise development zones (jobs and environmental remediation credits)
- Development opportunity zones (jobs, environmental remediation and capital investment credits)
- Technology zones (jobs, capital investment and property tax credits)
- Agricultural development zones (jobs, environmental remediation and capital investment credits)
- Airport development zones (jobs, environmental remediation and capital investment credits)
- Enterprise zones (job credits).

The list of new credits goes on:

- Credits for property taxes, investments and wages in newly created technology zones
- Credits for wages paid to employees working in newly created enterprise zones, and also for skill development and training for these employees
- A credit to rehabilitate historic buildings
- A credit to rehabilitate historic personal residences
- Film production investment credit for investments in Wisconsin film production companies

- Film production services credit for wages paid to Wisconsin residents and for state sales taxes on goods and services in relation to production of a film in the state
- Ethanol and biodiesel fuel pump credit for costs to install or retrofit pumps that dispense motor fuel containing ethanol or biodiesel fuel
- Internet equipment credit for equipment used in the broadband market
- Farmland tax relief credit for property taxes on agricultural land
- Dairy and livestock farm investment credit for investments in expanding or modernizing a dairy or livestock farm
- Dairy manufacturing facility investment credit for investments to expand or modernize a dairy manufacturing facility
- Early stage seed investment credit for investments in funds that invest in new business ventures in Wisconsin that have fewer than 100 employees and meet other requirements
- Angel investment credit for investments in new business ventures meeting the same requirements as those for the early state seed investment credit
- Research expense credits and research facilities credits for activities related to internal combustion engines
- Research expense credits and research facilities credits for activities related to lighting, automation and control systems
- Research expense credits and research facilities credits for activities related to hybrid-electric vehicles
- A credit for biodiesel fuel producers that begins in 2009
- Also beginning in 2009, a community rehabilitation program credit for payments for businesses that purchase services from vocational rehabilitation programs
- And beginning in 2010, a medical records tax credit for expenditures for information technology hardware or software used to maintain medical records in an electronic form.<sup>25</sup>

#### **D. The exemptions keep coming in 2009**

The descriptions above include tax breaks enacted between 1987 and 2008, including some that only take effect in 2009 or 2010. But though it is still early in 2009, a number of new credits have already become law or have been proposed to the Legislature.

The February budget repair bill, 2009 Wisconsin Act 2, eliminated the development zones, agricultural development zones, airport development zones, enterprise development zones and technology zones programs and credits. But it provides in their place a flurry of new incentives in development zones. Credits can be claimed for:<sup>26</sup>

- Creating or maintaining full-time jobs
- Investing in new equipment, machinery, real property or depreciable personal property
- Training or reeducating employees
- And locating or retaining a corporate headquarters in the state.

Further assistance may be provided for activities occurring in an economically distressed area or benefiting members of targeted, disadvantaged populations.

Other additions to the tax structure in the budget repair bill included:

- Expanding the angel investor credit
- Expanding the early stage investment credit
- Creating new credits for investments in nanotechnology
- Creating a new credit for modernizing or expanding dairy cooperative manufacturing facilities
- And creating a new credit for modernizing or expanding meat processing facilities.

The ones just listed are new tax breaks signed into law in the first weeks of 2009. Yet another batch is in the legislative pipeline, either included in the Governor's 2009-2011 budget proposal or in separate proposals from individual legislators.

The Governor's proposed budget would eliminate three credits, restructure a fourth, expand a fifth, and create three new credits, one new sales tax exemption, one new property tax exemption, and one new income tax deferral. Specifically:

- Repealed—the film production investment credit for investments in Wisconsin film production companies and the film production services credit for wages and other production expenses in the state would be repealed. In their place, grants would be available for film and video businesses that create permanent jobs in the state.
- Restructured—would be the farmland preservation credit, with the farmland tax relief credit repealed and its funding directed to the restructured credit.
- Expanded—would be the historic preservation tax credit, to include certain work to rehabilitate an income-producing historic building
- New—next-generation farmer credit, effective in 2011, for education for beginning farmers and also for persons who lease land to a beginning farmer
- New—jobs tax credit for some wages paid on new family supporting jobs, beginning in 2012
- New (effective in 2011)—credits for certain businesses that increase spending on research and development
- New—property and sales tax exemptions for machinery used exclusively for research and development in biotechnology
- Deferral—taxation on capital gains that are reinvested in qualified Wisconsin start-up companies.

Individual legislators have also been busy proposing new tax breaks. During the first two months of the 2009 legislative session, legislators had proposed the creation or expansion of more than fifteen additional credits, deductions and exemptions, including:

- Deductions for energy-efficient commercial buildings
- Exemptions for retirement plan income

- Increasing the amount for personal exemptions
- Exemptions for health savings accounts
- Teacher tax deduction for buying classroom supplies
- Expanded credits for certain capital gains
- Credit for buying insulating concrete forms
- Property tax exemption for certain leased housing
- New credit for workplace wellness programs
- New credit for purchasing a hybrid vehicle tax
- New tax credit for sales taxes paid on self-service laundry services
- Exempting from income tax grants from the state's program compensating some owners of water wells
- New income tax deduction for student loan interest
- Increased school property tax credit for those 65 and older
- And increasing the married couple tax credit by including retirement income.

If the past is any guide, this is just the beginning. In 2007-08 legislative session, there were at least 93 proposals to create new tax breaks or expanded or modify existing ones. See chart II for the list of 93 proposals and which of them became law in some form.

### **E. Sales tax exemptions**

While the income tax is the focus of this report, it is worth noting the variety of new exemptions on the sales tax that have also been enacted in the last 20 years. Exemptions have been enacted for sales to, among other entities:

- Local cultural arts districts
- Fox River Navigational System Authority
- University of Wisconsin Hospitals and Clinics Authority
- Health Insurance Risk-Sharing Plan Authority
- Wisconsin Aerospace Authority
- Non-profit cemeteries
- And customers at Department of Veterans Affairs exchanges.

New exemptions included:

- Equipment to increase broadband Internet availability
- Catalogs and their mailing envelopes
- Raw materials in printed products transported outside the state
- Meals provided by restaurants to their employees
- Goods purchased for resale but donated to a nonprofit
- Sales to affiliated companies
- Animal identification tags and samples sold by the Department of Agriculture and Consumer Protection
- Lubricants, non-power equipment and other property sold to farmers
- Logging equipment for forestry businesses
- Biomass used as a residential fuel

- Products powered by wind or solar energy or gas from agricultural waste
- Energy produced from wind or solar energy or gas from agricultural waste
- Building materials, equipment and supplies used in constructing Miller Park in Milwaukee and renovating Lambeau Field in Green Bay
- Rights to purchase admissions to Packer games
- Equipment and supplies used in the treatment and testing of diabetes
- Repair parts and accessories for exempt medical equipment
- Adaptive equipment for persons to access vehicles
- Pharmaceutical samples provided without charge
- Food sold by community-based residential facilities
- Live game birds sold to hunting preserves
- Clay pigeons sold to hunting preserves and to shooting facilities
- Admissions and memberships to gun clubs
- County fair admissions
- Snowmobile trail grooming equipment
- U.S. and Wisconsin flags
- Cloth diapers and diaper services
- Telecommunications purchased with prepaid phone cards
- Time-share rentals and admissions
- Registered vehicles transferred to in-laws
- Boats of nonresidents berthed in the state
- And aircraft of nonresidents registered in the state.

## **F. The cost of tax breaks**

What is the dollar value of these tax breaks? The best source is the Department of Revenue's 2009 edition of its *Summary of Tax Exemption Devices*.

Regarding individual income taxes, the *Summary* details 47 provisions which reduce income taxes owed the state, including 25 modifications to federal adjusted gross income, 2 deductions and exemptions, and 20 tax credits. Their total impact was estimated at \$3.1 billion for 2008. They range in size from the sliding scale standard exemption, valued at \$673 million, to items with a "minimal" impact such as the deduction for payments to victims of Nazi persecution.

Regarding corporate income taxes, the *Summary* details 16 deductions from gross income and 20 tax credits, among other items. Their total impact was estimated at more than \$196 million in 2008.

See Chart III and Chart IV for the *Summary* tables on individual and corporate income tax exemptions.

Regarding sales taxes, which this report has touched on briefly, the *Summary* details 13 exemptions primarily affecting households, with an impact of about \$1.38 billion; 8 for farming, valued at \$223 million; and 22 for business, valued at \$315 million.

All these estimates of value are incomplete, in that it was not possible for the authors of the *Summary* to come up with a total estimate for every single tax break.

### III. The Cure is Simplification

New exemptions, deductions and credits have complicated Wisconsin's individual income tax, requiring a longer form, more instructions and additional schedules. To some extent, the advent of electronic filing and tax preparation software help counteract the additional complexity. The state's Department of Revenue has actively encouraged e-filing since it was introduced in Wisconsin fifteen years ago. In 2008, 67.1% of all individual filers used an electronic return, well above the national rate of 57.6%.<sup>27</sup>

There is no such relief for tax administrators, who have more forms to design, process and audit, and more instructions to prepare. There is no relief for those who must analyze every new proposed credit, no matter how unlikely it is to become law: the Department of Revenue, the Legislative Fiscal Bureau and the Legislature Reference Bureau all may be called into action when a proposal surfaces in the Legislature.

For taxpayers, there is a cost to the ease of computation provided by digital tools. There is also the potential loss in understanding exactly how the tax structure affects them. Further, complicated tax laws and the proliferation of new schedules limit the use of electronic filing. For tax year 2008, if you owe alternative minimum tax or the recycling surcharge or are claiming the farmland preservation credit, the historic rehabilitation credits or any of the recently enacted business credits, you cannot file your Wisconsin return electronically.

With this in mind, the following recommendations are in order:

- A **sunset** date, no more than a few years into the future, should accompany all new credits, exemptions and deductions. Setting a date on which the tax benefit automatically expires—unless specifically renewed—would force periodic reviews of all tax breaks.
- A formal process for **evaluating the effectiveness** of all exemptions should be put in place, including all current tax breaks. This is the only way to know if the tax break is having the economic impact it was intended to have.
- Finally, a **moratorium** on new proposals, until the previous recommendations are adopted. There is simply no point in adding to the complexity until a more effective and rational way of determining the value of tax exemptions and credits to not only the recipients but to the state as a whole.

### Appendix 1: Business Tax Credits Enacted Since 1987

Year Taking Effect	Business Tax Credit
1988	Development zone investment, jobs, location, research and sales tax credits Drought credit/farmland tax relief credit (a)
1989	Historic rehabilitation credits
1994	Development opportunity zone credits
1995	Development zone day care and environmental remediation credits Enterprise development zone credits
1998	Development zone, development opportunity zone and enterprise development zone credits environmental remediation and job retention and creation credits (b) Manufacturer's sales tax credit for individuals, partners and tax-option (Subchapter S) corporation shareholders (c)
2000	Development opportunity zone investment credit
2002	Technology zone credit
2003	Agricultural development zone credits Development opportunity zone and development zone capital investment credit
2004	Dairy farm investment credit (d)
2005	Angel investment credit Early stage seed investment credit
2006	Broadband market Internet equipment credit Health insurance risk-sharing plan assessment credit Livestock farm investment credit
2007	Airport development zone credits Dairy manufacturing facility investment credit (d) Enterprise zone jobs credit Research expenditures and research facilities credits - internal combustion engines, lighting, automation and control systems, and hybrid-electric vehicle batteries.
2008	Ethanol and biodiesel fuel pump credit (d) Film production company investment credit Film services production credit Manufacturing investment credit
2009	Community rehabilitation program credit
2010	Biodiesel fuel production credit Electronic medical records credit

(a) The drought credit was provided in 1988 only to provide farmers relief for drought conditions that year. The similar farmland tax relief credit replaced the drought credit in 1989.

(b) These credits replaced the day care, environmental remediation, investment, jobs, location, research and sales tax credits, which were repealed

(c) Prior to 1998, the manufacturer's sales tax credit was available to corporations only. This credit was repealed and replaced by a sales tax exemption in 2006.

(d) Dairy farm investment credit expires after 2009.  
Livestock farm investment credit expires after 2011.  
Dairy manufacturing facility investment credit expires after 2014.  
Ethanol and biodiesel fuel pump credit expires after 2017.  
Biodiesel fuel production credit expires after 2012.

Source: Wisconsin Department of Revenue, *Wisconsin Tax Bulletin*, various issues, 1988-2008 (accessed at: <http://www.revenue.wi.gov/ise/wtb/index.html>).

---

<sup>1</sup> Wisconsin Department of Revenue, *Summary of Tax Exemption Devices, February 2009*. Accessed at: [www.dor.state.wi.us/ra/09sumrpt.pdf](http://www.dor.state.wi.us/ra/09sumrpt.pdf).

<sup>2</sup> Copies of tax forms available at the Wisconsin Department of Revenue web site.

<sup>3</sup> American Bar Association, *Tax Simplification: 2002 Legislative and Governmental Priorities*. Accessed at: [www.abanet.org/poladv/priorities/tax.html](http://www.abanet.org/poladv/priorities/tax.html).

<sup>4</sup> Rea S. Hederman, Jr., “Senate Budget resolution fails to Address Tax Gap Problems,” in *WebMemo*, published by The Heritage Foundation, April 10, 2007. Accessed at: [www.heritage.org/Research/Taxes/upload/wm\\_1419.pdf](http://www.heritage.org/Research/Taxes/upload/wm_1419.pdf).

<sup>5</sup> Jason Furman, “Closing the Tax Gap,” Center on Budget and Policy Priorities, April 10, 2006. Accessed at: [www.cbpp.org/4-10-06tax3.htm](http://www.cbpp.org/4-10-06tax3.htm).

<sup>6</sup> William G. Gale, “Tax Simplification: Issues and Options,” July 17, 2001. Accessed at: [www.brookings.edu/testimony/2001/0717useconomics\\_gale.aspx](http://www.brookings.edu/testimony/2001/0717useconomics_gale.aspx).

<sup>7</sup> National Taxpayer Advocate, *2008 Annual Report to Congress, Volume One*, p. 3. Accessed at: [www.irs.gov/pub/irs-utl/08\\_tas\\_arc\\_intro\\_toc\\_msp.pdf](http://www.irs.gov/pub/irs-utl/08_tas_arc_intro_toc_msp.pdf).

<sup>8</sup> National Taxpayer Advocate, p. 4.

<sup>9</sup> Where in the law are tax exemptions, deductions and credit located? Chapter 71 is the part of Wisconsin Statutes imposing the individual and corporate income taxes. Most income tax exemptions and deductions are provided in sections relating to the computation of income: sections 71.05 for individuals, 71.15 for fiduciaries (such as trust and estates), 71.26 for corporations and 71.45 for insurance companies. Some exemptions may appear in other chapters—for example, the exemption for interest on housing authority bonds can be found in section 66.1201 (14)(a) and the exemption for interest on redevelopment authority bonds is in section 66.1333 (5)(a)4.c. Credits are provided in sections 71.07 for individuals and fiduciaries, 71.28 for corporations and 71.47 for insurance companies. The state’s sales tax law is in Chapter 77 of the statutes, and most exemptions are provided in section 77.54.

<sup>10</sup> Texts of state statutes are available through the Wisconsin Legislative Reference Bureau. Current statutes can be accessed at: [www.legis.state.wi.us/RSB/STATS.HTML](http://www.legis.state.wi.us/RSB/STATS.HTML). Statutes from previous years can be accessed at: [www.legis.state.wi.us/rsb/wislawarc.htm](http://www.legis.state.wi.us/rsb/wislawarc.htm). Word counts were conducted using AnyCount software, version 6.0. Available at: [www.anycount.com](http://www.anycount.com).

<sup>11</sup> Institute on Taxation and Economic Policy, *Income Tax Simplification: How to Achieve It*, Policy Brief #18 2005. Accessed at: [www.itepnet.org/pb18simp.pdf](http://www.itepnet.org/pb18simp.pdf).

<sup>12</sup> Chris Edwards, *10 Outrageous Facts About the Income Tax*, Cato Institute, April 15, 2003. Accessed at: [www.cato.org/pub\\_display.php?pub\\_id=3603](http://www.cato.org/pub_display.php?pub_id=3603)

<sup>13</sup> Most states conforming to federal law use federal AGI as their starting point, though a few, including Minnesota, start with federal taxable income (AGI less the standard or itemized deductions and less personal exemptions). Alabama, Arkansas, Mississippi, New Jersey and Pennsylvania do not conform closely to federal law. See Federation of Tax Administrators, “State Personal Income Taxes: Federal Starting Points (as of January 1, 2008). Accessed at: [http://www.taxadmin.org/fta/rate/inc\\_stp.html](http://www.taxadmin.org/fta/rate/inc_stp.html).

<sup>14</sup> Taxpayers have to account for other differences besides the additions and subtractions described here by completing Schedule I.

<sup>15</sup> Wisconsin follows federal law in allowing a full deduction of health insurance premiums paid by the self-employed. In addition, in 2008 Wisconsin allows employed persons to subtract the full amount of their health insurance premiums when the employer makes no contribution to the employee’s coverage and to subtract 10% of premiums paid when the employer pays a portion of the premiums, and allows persons who are not employed to subtract two-thirds of their premium payments. These two latter, partial subtractions will be increased to 100%, in 2009 for those with no employer and in 2011 for employed persons whose employer pays a portion of the premiums. Wisconsin Legislative Fiscal Bureau, *Comparative Summary of Budget Provisions Enacted as 2005 Act 25*, October 2005 (accessed at: <http://www.legis.state.wi.us/lfb/2005-07budget/Act%2025/tableofcontents.htm>), and *Summary of Budget Provisions, 2007 Wisconsin Act 20* (accessed at: <http://www.legis.state.wi.us/lfb/2007-09budget/Act%2020/tableofcontents.htm>).

<sup>16</sup> Wisconsin does not permit the tuition deduction claimed on the federal tax return. Taxpayers make the adjustment for this difference on Schedule I.

<sup>17</sup> The subtraction does not apply to pay for service in a combat zone because combat pay is already exempt under both federal and state law.

---

<sup>18</sup> *Summary of Budget Provisions, 2007 Wisconsin Act 20*. Initially, the deduction will be limited to \$1,500 for one child and \$3,000 for two more children, but these limits will be increased until they reach \$3,000 for one child and \$6,000 for two or more children in 2012.

<sup>19</sup> *Ibid*.

<sup>20</sup> The working families credit eliminates or reduces tax when income is less than \$10,000 for single persons and \$19,000 for married couples filing jointly. Since it was created in 1998, the standard deduction has been increased and indexed for inflation and personal exemptions have been provided—changes that are more effective ways of eliminating or reducing tax liability on low-income families than the working families credit. Repeal of this credit would affect few families. According to data provided by the Wisconsin Department of Revenue, in tax year 2007 only 3,400 tax filers used working family credits to lower their tax otherwise due by \$127,000. Each year, indexing lowers the number of tax filers using this credit.

<sup>21</sup> In 2006, 500 individuals paid recycling surcharge totaling \$60,000 on their income tax returns (*Individual Income Tax Statistics Report for Tax Year 2006*).

<sup>22</sup> About 29,000 taxpayers reported and paid sales and use tax of \$1.6 million in 2006, a fraction of the amount state residents owe on purchases from Internet retailers, catalog companies and other remote sellers (*Individual Income Tax Statistics Report for Tax Year 2006*).

<sup>23</sup> Wisconsin Department of Financial Institutions, “Historical Compilation of Filings – By Fiscal Year, 1996-2008.” Accessed at

[http://www.wdfi.org/\\_resources/indexed/site/corporations/HistoricalTotals071508.pdf](http://www.wdfi.org/_resources/indexed/site/corporations/HistoricalTotals071508.pdf).

<sup>24</sup> Data provided by Wisconsin Department of Revenue.

<sup>25</sup> Another new credit, available only to insurers paying the gross premium tax, is provided for investments in certified capital credit companies (CAPCO). The credit equals 10% of the amount invested each year for 10 years—the credit returns the full investment. CAPCOs are required to invest only 30% of the amounts they receive within three years and 50% of the amounts received within five years in high-technology businesses. See *Wisconsin Corporate Income and Franchise Taxes*.

<sup>26</sup> The discussion of Act 2 is based on Wisconsin Legislative Fiscal Bureau, *Summary of Budget Adjustment Provisions: 2009 Wisconsin Act 2*, February 23, 2009. Accessed at: [http://www.legis.state.wi.us/lfb/2007-09budget/2009\\_02\\_23Act2.pdf](http://www.legis.state.wi.us/lfb/2007-09budget/2009_02_23Act2.pdf).

<sup>27</sup> Joel Dresang, “E-filing touted as fast, accurate,” *Milwaukee Journal Sentinel*, Jan. 25, 2009. Accessed at: <http://www.jsonline.com/business/38255924.html>.