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Moratorium on all New Tax Credits, Exemptions and Deductions

Here is an opportunity to help with the immediate state budget crisis while also moving on a sensible approach to long-term tax reform: An immediate moratorium on all tax credits, tax deductions and tax exemption proposals currently before the Legislature. There are at least 17 new or expanded income tax credit proposals that have been introduced this session, 8 income tax deductions, and 5 sales tax exemptions, according to the May 8 Legislative Subject Index of new bills.

There are two reasons for halting action on these 30 or more tax-cutting proposals:

1. Given the budget crisis, it makes no sense to cut state revenue. Some of the proposed tax breaks may be sensible proposals, but with the huge cuts proposed in state services, this is not the time to enact new breaks.
2. The nonstop proliferation of tax breaks over the past twenty years has not only riddled the state tax base with holes, but has led to an enormous increase in the complexity of Wisconsin's tax code and tax forms.

More than one hundred tax breaks have become law in Wisconsin since 1987—exemptions, deductions and credits. The result is that 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.

Tax credits have caused income tax laws to grow much more wordy and complicated. 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. 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.

Therefore, both for purposes of the immediate budget crisis and in order to impose a more rational long-term structure for the state's tax laws, we urge:

1. A moratorium on all proposed tax credits, exemptions and deductions. There is no point in reducing revenue and adding to the complexity until the budget crisis is passed and until a more effective and rational way of determining the value of tax breaks is set in place.
2. In addition, the Legislature would do well to add a sunset date, no more than a few years into the future, to all tax 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.
3. Finally, 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.

Further details are available on IWF's web site: www.wisconsinsfuture.org.

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