DAVID STEFFEN

STATE REPRESENTATIVE • 4TH ASSEMBLY DISTRICT

August 30, 2023

Testimony to the Assembly Committee on Ways and Means on Assembly Bill 386

Chairman Macco and Committee Members:

Thank you for the opportunity to testify in favor of Assembly Bill 386, the "Returning Your Surplus" legislation. This proposal will provide meaningful tax relief for our retirees and hardworking middle-class families. With an overall tax-cut of over $2.9 Billion and the average filer seeing a decrease of $772 on their taxes, this proposal ensures that Wisconsinites are keeping more of their hard earned paychecks.

Months ago I began working on creating Tax-Free Retirement in Wisconsin (AB 384), to help our fixed-income retirees retain more of their retirement savings and ultimately to give them the financial freedom to stay here in Wisconsin. Two of our neighboring states, Illinois and Iowa, offer some sort of tax-free retirement option. Wisconsin must adopt a similar policy if we'd like to truly compete to retain our retirees. When our retirees choose to relocate, it is not just a loss for our communities and families, but for our economy as well.

The bill before you today combines Tax-Free Retirement with a middle-class tax cut to provide more widespread relief during these challenging financial times. The high income tax burden in Wisconsin coupled with crushing nationwide inflation have made affording everyday life a real financial struggle. Our state's unprecedented budget surplus has placed us in the position to deliver real, meaningful relief to Wisconsin families. As responsible stewards of taxpayer dollars, it's time to return the surplus to its rightful owners.

AB 386 includes two pieces:

1) Exempts $100,000 of retirement account income for single filers from being taxed and $150,000 of retirement account income for married-joint filers from being taxed.
2) Reduces the tax rate for middle-income earners (the third tax bracket) from 5.3% to 4.4%.

The average Wisconsin family makes about $67,000 a year. A truly middle-class tax-cut must include our typical families who are finding it harder and harder each day to make ends meet. But perhaps just as important to emphasize—no matter the current financial times, the surplus our state has built is made of taxpayer dollars that must be returned to the taxpayers. AB 386 provides a clear pathway to returning the surplus to our hardworking families and our retirees, at a time when relief is needed more than ever.

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DAVID STEFFEN

STATE REPRESENTATIVE • 4TH ASSEMBLY DISTRICT

Thank you again for the opportunity to speak in favor of the "Returning Your Surplus" proposal. I look forward to answering any questions from committee members.

Sincerely,

David Steffen
State Representative
4th Assembly District

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TERRY KATSMA
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Testimony on AB 386
Assembly Ways and Means Committee
Wednesday, August 30th, 2023

Thank you Representative Macco and Assembly Ways and Means Committee members for allowing me to provide testimony in support of Assembly Bill 386.

I am proud to have worked with my legislative colleagues to author this important piece of legislation targeted at returning the surplus to the people of Wisconsin.

AB 386 reduces the marginal tax rate applicable to the third bracket from 5.3% to 4.4% beginning in tax year 2023 as well as expanding the retirement income subtraction.

Wisconsin marginal tax rates are not competitive with our neighbors. In order to attract workers as well as retain our retirees we must look to reduce our overall tax burden.

The average filer will receive a $772 decrease in tax year 2023, which represents an average total tax liability reduction of 15.9% among filers with a tax decrease.

The retirement subtraction would allow married-joint filers to exclude up to $150,000 of retirement income (from 401k, 403b, and pension accounts) from state tax. Four states currently offer some form of tax-free retirement, including our neighbors Illinois and Iowa.

AB 386 provides an overall tax cut of $2.9 Billion. That is real money going back to the taxpayers who have overpaid.

This middle-class tax cut focuses the relief on the families and retirees that have been hit the hardest during these inflationary times.

Thank you again for allowing me to provide testimony in support of AB 386. I welcome any questions from the committee.

AB386

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August 25, 2023

TO: Representatives Katsma and Steffen
State Capitol

FROM: Dan Spika and John Gentry, Fiscal Analysts

SUBJECT: LRB 4136/1: Retirement Income Exclusion and Income Tax Rate Reduction

This memorandum summarizes the provisions of LRB 4136/1. Beginning in tax year 2023, the bill would: (a) reduce the rate applicable to the third individual income tax bracket; (b) exclude most retirement income for individuals aged 67 or older from tax; and (c) make technical changes to cross references under current law.

CURRENT LAW

The starting point for determining Wisconsin adjusted gross income (AGI) is federal AGI, which itself is derived from gross income. This includes income from all sources, unless a specific exclusion is provided. Income that is earned and contributed to a pre-tax retirement account is excluded from federal (and state) AGI.

For most qualified retirement accounts, state and federal income tax is paid once, either on the amount distributed (for pre-tax retirement accounts) or on the amount contributed (after-tax retirement accounts). For pre-tax retirement accounts (most pensions, 401(k)s, 403(b)s, and individual retirement accounts [IRAs]), contributions are made tax-free by employers and/or employees, the earnings grow tax free over the life of the investment, and tax is owed on the amounts distributed from the pre-tax account. Most qualified retirement accounts require the owner to reach a qualified retirement age (generally 59 and ½) before a distribution can be made from the account without penalty. In order to prevent an individual from growing their pre-tax investment in their retirement account forever, federal law generally requires owners to make required minimum distributions (RMDs) from their accounts, beginning at age 73 in 2023. For after-tax retirement accounts (such as a Roth IRA or Roth 401(k)), state and federal tax is paid on the individual's earnings that are used to make a qualified contribution to the account. Amounts contributed to an after-tax account grow tax-free over the life of the investment, and distributions are made tax-free once the owner reaches the qualified retirement age (generally 59 and ½). Because tax has already been paid on after-tax retirement accounts, federal law does not require RMDs from a Roth retirement account.

Under current law, the following retirement income categories are excluded from Wisconsin AGI: (a) Social Security benefits; (b) payments from the U.S. military employee retirement system and U.S. government retirement payments received by members of the U.S. Coast Guard, the Commissioned Corps of the National Oceanic and Atmospheric Administration, and the Commissioned Corps of the Public Health Service; (c) income from certain public retirement systems if the individual was a member of, or retired from, that system prior to 1964; and (d) up to $5,000 of retirement income for taxpayers aged 65 or over with federal AGI of less than $15,000 per filer or less than $30,000 for married-joint filers. Together, these provisions are estimated to reduce individual income tax revenues by nearly $950 million in tax year 2024 under current law (the exclusion for Social Security benefits accounts for an estimated $900 million [95%] of this total).

Taxable income, the amount of income actually subject to tax, is calculated under current law by subtracting the state sliding scale standard deduction and personal exemptions from Wisconsin AGI. Table 1 displays the rate and bracket schedule applicable to taxable income in tax year 2023 under current law. Pursuant to 2023 Act 19, the 2023-25 biennial budget act, the bottom two rates were reduced from 4.65% and 3.54% to 4.40% and 3.50%, respectively, beginning in tax year 2023.

TABLE 1

Current Law Tax Rate and Bracket Schedule, Tax Year 2023

	Income Tax Brackets by Filing Status		
Tax Rate	Single and Head-of-Household	Married-Joint	Married-Separate
3.50%	$0 to $13,810	$0 to $18,420	$0 to $9,210
4.40%	13,810 to 27,630	18,420 to 36,840	9,210 to 18,420
5.30%	27,630 to 304,170	36,840 to 405,550	18,420 to 202,780
7.65%	304,170 and over	405,550 and over	202,780 and over

SUMMARY OF LRB 4136/1

Exclusion for Retirement Income. Beginning in tax year 2023, the bill would exclude the first $100,000 of retirement income currently subject to state tax received by each individual who is at least 67 years of age before the close of the taxable year. For married-joint filers where each spouse has attained age 67, the maximum exclusion would equal $150,000. For married-separate filers who have attained age 67, the exclusion claimed by each spouse could not exceed $75,000. [For comparison, the estimated average state-taxable retirement income under current law for individuals with retirement income in tax year 2023 is $37,530 for married-joint filers and $22,140 for all other filers.] The bill would prohibit a taxpayer who claims this exclusion from claiming any state income tax credits provided under current law in the same tax year. The Appendix provides a list of all nonrefundable and refundable tax credits available under current law in tax year 2023.

Nonresidents would be prohibited from claiming the exclusion. Part-year residents could claim the exclusion only for the portion of their retirement income which is sourced to Wisconsin. For part-year residents, this amount is calculated by multiplying the total exclusion amount they could otherwise claim by a fraction where the numerator is the individual's wages, salary, tips, unearned income, and net earnings from a trade or business that are taxable by this state and the denominator is the individual's total wages, salary, tips, unearned income, and net earnings from a trade or business from all sources.

Retirement income, for purposes of the exclusion, would be defined as payments or distributions received each year by an individual from a qualified retirement plan under the Internal Revenue Code under 26 USC 408 [such as distributions from a pension, 401(k), or 403(b)] or from an IRA established under specified provisions of federal law, which are generally subject to RMDs. The proposed exclusion would not apply to any retirement income which is already exempt under any of the aforementioned provisions of current state law (to prevent an exclusion from being claimed twice on the same income). Distributions from qualified after-tax retirement plans for which tax had already been paid (such as a Roth IRA, Roth 401(k), or Roth 403(b) plan) would not receive an additional tax benefit under the bill.

Income Tax Rate Reduction. Further, beginning in tax year 2023, the bill would reduce the marginal tax rate applicable to the third bracket from 5.30% to 4.40%. As a result, the third bracket would be consolidated into the second bracket. The rate and bracket structure that would apply in tax year 2023 under the bill is displayed in Table 2.

TABLE 2

Tax Rate and Bracket Schedule under LRB 4136/1, Tax Year 2023

	Income Tax Brackets by Filing Status		
Tax Rate	Single and Head-of-Household	Married-Joint	Married-Separate
3.50%	$0 to $13,810	$0 to $18,420	$0 to $9,210
4.40%	13,810 to 304,170	18,420 to 405,550	9,210 to 202,780
7.65%	304,170 and over	405,550 and over	202,780 and over

Technical Cross Reference Changes. Finally, the bill would eliminate certain cross references between the current law retirement income exclusion for up to $5,000 of payments under qualified retirement plans and the current law exclusions for retirement payments received under military retirement systems, uniformed services retirement benefits, and disability payments. The Department of Revenue (DOR) indicates that it is unnecessary to have two sets of cross references, and thus the cross references removed under the bill would have no effect to current law.

FISCAL EFFECT

The bill is estimated to reduce individual income tax collections by $1,549.5 million in 2023-24 and $1,403.1 million in 2024-25. This estimate, and the attached distributional tables, are based on a simulation by DOR.

Table 3 displays the fiscal estimate of the bill for each year of the 2023-25 biennium. As shown, the estimates include an interactive effect, which may occur when multiple tax law changes impact an individual's tax liability. The estimates for 2023-24 also include one-time revenue impacts, which result from differences in timing between the state fiscal year and the tax year.

TABLE 3

Estimated Fiscal Impact of LRB 4136/1 by Provision, 2023-25 Biennium (Millions)

Provision	2023-24	2024-25	2023-25 Biennium
Reduce 5.30% Rate to 4.40%	-$1,048.3	-$1,030.2	-$2,078.5
Retirement Exclusion	-572.7	-425.5	-998.3
Interactive Effect	71.5	52.6	124.1
Total	-$1,549.5	-$1,403.1	-$2,952.7

It should be noted that, based on current population estimates published by the Department of Administration, the proportion of the Wisconsin population that is of retirement age is projected to increase from 17.7% in 2020 to 23.7% in 2040. The total number of retirement-aged Wisconsin residents over this same time period is expected to increase by 57%, from 0.98 million residents (as reported by the U.S. Census Bureau) to 1.54 million. To the extent this projected demographic trend occurs, the cost of the proposed retirement exclusion would increase in the future.

The attachment displays the estimated distributional impact of the retirement income exclusion and the rate reduction for tax year 2023. As shown in the attachment, it is estimated that 1.73 million filers would receive tax decreases totaling $1,332.3 million, for an average decrease of $772 in tax year 2023. It is estimated that the bill would reduce the share of taxpayers with a net income tax liability in tax year 2023 by 5.1 percentage points, from 71.9% under current law to 66.8% under the bill.

DOR indicates that it will draft tax forms and begin programming (along with third-party software developers) for tax year 2023 in September, 2023, and that it will print tax forms and instructions in October, 2023. Depending on the date of enactment, the proposed tax changes under LRB 4136/1 could require DOR to incur costs to re-print forms and delay the date for individuals to file their tax returns for the 2023 tax year.

We hope this information is helpful, please contact us with any questions.

DS/JG/lb
Attachment

ATTACHMENT

LRB 4136/1: Exclude First $100,000 of Retirement Income if Aged 67 or Older ($150,000 Married-Joint and $75,000 Married-Separate per Spouse) and Reduce 5.30% Rate to 4.40%, Tax Year 2023

Wisconsin Adjusted Gross Income	Taxpayers with a Tax Decrease: Count	% of Count	Amount of Tax Decrease	% of Decrease	Average Decrease	Count of All Returns	% of all Returns in AGI Class
Under $5,000	19,765	1.1%	$253,222	<0.1%	$13	471,850	4.2%
5,000 to 10,000	10,718	0.6	393,002	<0.1	37	209,515	5.1
10,000 to 15,000	8,170	0.5	466,950	<0.1	57	170,885	4.8
15,000 to 20,000	9,290	0.5	831,631	0.1	90	150,071	6.2
20,000 to 25,000	17,042	1.0	1,991,700	0.1	117	149,470	11.4
25,000 to 30,000	20,030	1.2	4,179,952	0.3	209	154,593	13.0
30,000 to 40,000	71,673	4.2	16,271,067	1.2	227	303,991	23.6
40,000 to 50,000	229,328	13.3	39,216,608	2.9	171	274,021	83.7
50,000 to 60,000	193,828	11.2	58,758,851	4.4	303	224,455	86.4
60,000 to 70,000	171,716	9.9	67,611,966	5.1	394	174,677	98.3
70,000 to 80,000	138,796	8.0	72,143,046	5.4	520	141,021	98.4
80,000 to 90,000	112,596	6.5	70,806,292	5.3	629	114,227	98.6
90,000 to 100,000	96,248	5.6	70,040,214	5.3	728	97,605	98.6
100,000 to 125,000	192,127	11.1	169,285,457	12.7	881	194,584	98.7
125,000 to 150,000	133,595	7.7	150,336,689	11.3	1,125	135,489	98.6
150,000 to 200,000	143,030	8.3	205,767,031	15.4	1,439	145,579	98.2
200,000 to 250,000	60,792	3.5	114,676,793	8.6	1,886	62,061	98.0
250,000 to 300,000	29,851	1.7	69,426,048	5.2	2,326	30,591	97.6
300,000 to 500,000	43,201	2.5	133,576,872	10.0	3,092	44,207	97.7
500,000 to 1,000,000	17,806	1.0	61,898,283	4.6	3,476	18,294	97.3
1,000,000 and over	7,307	0.4	24,378,549	1.8	3,337	7,620	95.9
Total	1,726,908	100%	$1,332,310,223	100.0%	$772	3,274,806	52.7%

--In tax year 2023, it is estimated that 1,726,908 filers (52.7% of all filers) would receive tax decreases totaling $1,332.3 million, for an average decrease of $772. Filers without a decrease would generally be those who: (a) do not have any taxable income above the bottom two brackets; or (b) are not at least aged 67 with state-taxable retirement income.

--Taxpayers with Wisconsin AGI under $100,000 would represent 63.7% of all filers with a tax decrease, and would receive 30.2% of the decrease. Their estimated average decrease would be $367 in tax year 2023.

--Taxpayers with Wisconsin AGI of $100,000 or more would represent 36.3% of all filers with a tax decrease, and would receive 69.8% of the decrease. Their estimated average decrease would be $1,481 in tax year 2023.

--In general, the average decrease rises with Wisconsin AGI over the AGI groups shown above.

Based on a simulation of tax year 2023 by the Department of Revenue.

APPENDIX

The following tax credits are available to be claimed by individuals in tax year 2023 under current law, but could not be claimed if an individual were to claim the proposed exclusion for retirement income under LRB 4136/1.

Nonrefundable Individual Income Tax Credits

- Married Couple Credit
- Itemized Deduction Credit
- Property Tax/Rent Credit
- Working Families Credit
- Taxes Paid to Other States Credit
- Child and Dependent Care Expenses Credit
- State Historic Rehabilitation Credit
- Angel Investment Credit
- Unused Credits Carried Forward from Prior Years

Refundable Individual Income Tax Credits

- Earned Income Tax Credit
- Homestead Credit
- Veterans and Surviving Spouses Property Tax Credit
- Repayment (Claim of Right) Credit

Nonrefundable Business Tax Credits

- Community Rehabilitation Program Credit
- Early Stage Seed Investment Credit
- Employee College Savings Account Contribution Credit
- Insurance Security Fund Assessment Credit
- Low-Income Housing Credit
- Manufacturing and Agriculture Credit
- Nonrefundable Research Credit
- Supplement to the Federal Historic Rehabilitation Credit
- Unused Credits Carried Forward from Prior Years

Refundable Business Tax Credits

- Business Development Credit
- Electronics and Information Technology Manufacturing Zone (Foxconn) Credit
- Enterprise Zone Credit
- Farmland Preservation Credits
- Refundable Research Credit

WISCONSIN STATE SENATE
19th SENATE DISTRICT

RACHAEL A. CABRAL-GUEVARA

STATE SENATOR • 19TH SENATE DISTRICT

Testimony before the Assembly Committee on Ways and Means
Senator Rachael Cabral-Guevara
August 30, 2023

Thank you Chairman Macco and members of the committee for allowing me to testify today on Assembly Bill 386.

Inflation doesn't seem a strong enough word to describe the pain inflicted when you have to choose between paying an electric bill or buying milk. I can't sit by and watch people suffer while the state government in Madison sits on billions of dollars that rightfully belong to the people who earned it.

The proposal you have in front of you today goes a long way to righting this wrong by reducing the tax paid by middle-class folks and retirees. Wisconsin's tax climate is becoming more and more of an outlier in the Midwest. Michigan, Indiana, and Illinois all have flat income tax rates. Iowa is moving towards that model. We can and must do better for families, workers, and retirees. We're determined to make Wisconsin the best place to work, live, and raise a family.

The proposal would save the average Wisconsin taxpayer over $750 every year by reducing the middle class tax bracket. Under the new rate, families filing jointly who earn between $18,420 and $405,550 would be taxed at 4.4%.

This simply allows hardworking families to keep more of the money they earn. The state government in Madison has stockpiled billions of dollars that belong to the people of our state, it's time that money go back into the pockets of the folks who worked tooth and nail for it.

The proposal also makes more retirement income for individuals tax-free. Funds withdrawn from an IRA, 401(k) and other retirement savings accounts or pensions are still subject to Wisconsin income tax. Under the plan, up to a maximum of $100,000 a year for individuals and $150,000 for joint filers would be tax free.

The retired parents and grandparents in our state deserve to keep the money they've squirreled away throughout their career. Punishing them for staying near their family in Wisconsin once they retire isn't the way to treat our seniors.

Combined, these two reforms will deliver nearly $3 billion in tax relief.

This change won't make anyone rich, but it just might let someone keep their parent or grandparent nearby. It might keep food on the table. It might help pay for childcare. As I've said in the past, I trust hardworking Wisconsinites to spend their money more wisely than the government.

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KAREN HURD

STATE REPRESENTATIVE • 68TH ASSEMBLY DISTRICT

Assembly Bill 386
Public Testimony
Ways and Means Committee
August 30, 2023

Thank you, Chair Macco, Vice-chair Brooks and members of the committee for holding this hearing on Assembly Bill 386.

To collect money from the citizens of the state of Wisconsin for which the government has no pre-planned need as determined in the highly examined, debated, and deliberated biennial budget is nothing short of robbery. Never should our state government think themselves smarter and better than the citizenry whom we represent. We are not and should never attempt to be nannies by exerting more control of the funds that our residents have worked so laboriously to obtain, thinking that we know better how to spend their money than they do. We certainly need to conduct the state business as the citizens have appointed us to do—to protect them, to provide economic stability, to make the state a home where they can adequately and safely raise their families—but we only need to collect the money to do those things that our constituents have indicated they want us to do.

This past biennium our state collected too much money in taxes which resulted in a burden on our citizens. This excess money resulted in a surplus beyond what was budgeted. We should not repeat this by continuing to charge the same amount of taxes when it is a fact that we had a large surplus. The citizens of Wisconsin must be allowed to spend their money as they determine, not as the state determines. Our citizens are bright and intelligent and know how and when to spend their money. To deny them access to their hard-earned dollars by continuing the current tax rate of 5.3 percent in the third bracket is not fair or right. We need to take care of our citizens' economic stability and not run them out of our state because of income taxes that are too high.

Our high middle class income tax is a detriment to our state. It discourages our own citizens from continuing to live in our state as well as preventing new residents from making Wisconsin their home.

Eliminating the tax on retirement income is a needed measure to retain our retirees in the state of Wisconsin. Too many leave our state to reside in other states where income taxes are lower or non-existent. We need our residents to remain here in Wisconsin. We need to attract other retirees to our state. My sister was recently widowed. I encouraged her to move here to Wisconsin so she could be near family. She deliberated for many months on the decision because of the high middle class

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income tax in Wisconsin and the tax on retirement income. She considered Florida and Texas, but she finally decided to move to Wisconsin only for the sake of the family. However, I just learned yesterday that before moving from her state she withdrew all of her 401K savings before moving as she didn't want that money taxed when she withdrew it in Wisconsin.

We need to be smart economically, for our citizens' sake and the economic well-being of our state. I am in favor of AB 386 to lower the individual income tax rates in the third bracket and increase and expand the retirement income subtraction.

Thank you for your time. I am happy to answer any questions the committee may have.

August 30, 2023

TO: **Members**
Assembly Committee on Ways and Means

FR: **Brian Dake**
President
Wisconsin Independent Businesses

RE: **2023 Assembly Bill (AB) 386 relating to: lowering the individual income tax rates in the third bracket and increasing and expanding the retirement income subtraction.**

Chair Macco and committee members my name is Brian Dake, President of Wisconsin Independent Businesses. Thank you for the opportunity to testify in support of 2023 Assembly Bill (AB) 386.

By way of background, Wisconsin Independent Businesses (WIB) was formed in 1977 to provide small, independent business owners with an effective voice in the legislative and regulatory activities of state government. Today, we proudly represent more than 2,000 small business owners throughout Wisconsin. Most of our members (approximately 85%) own and operate businesses which have fewer than 25 employees and/or annual gross revenues of less than $5 million.

WIB advocates for broad-based tax relief, state tax code simplification and federal-state tax code conformity. AB 386 accomplishes the first two of these important public policy objectives.

Under current law, in tax year 2023, the 5.3% state individual income tax rate is applied to taxable gross income between $27,630 to $304,170 for single filers and taxable income between $36,840 to $405,550 for married-joint filers. Over two million Wisconsin taxpayers – including most workers and thousands of small business owners – have taxable income that falls within this broad range. AB 386 would reduce this third income tax bracket rate to 4.4%. As a result, small business owners would have more money to invest in their business and workers would be able to keep more of their hard-earned money.

This tax relief legislation is also critically important as we continue to experience historically high inflation. During periods of inflation, income tax liabilities go up as well. The surge in income tax revenues to the state is accompanied by a reduction in disposable income of individuals and families throughout Wisconsin.

If AB 386 were to become law, Wisconsin taxpayers would have an additional $2 billion to spend on their priorities over the next two years. Furthermore, we believe a sizable portion of that amount would wind its way through the economy and help support small businesses throughout Wisconsin.

A simplified tax code is easier to administer and the compliance burden on taxpayers is less costly. AB 386 would create a simpler state individual income tax code by reducing the number of taxable income brackets and the number of marginal tax rates from four to three.

We respectfully ask for your support of AB 386.

Thank you in advance for your consideration.

WMC

Wisconsin's Chamber

TO: Assembly Committee on Ways & Means

FROM: Evan Umpir, Director of Tax, Transportation, and Legal Affairs

DATE: August 30, 2023

RE: Testimony on Assembly Bill 386

Thank you Chairman Macco, Ranking Member Conley, and Committee members for the opportunity to testify on Assembly Bill 386. In April, this committee held a hearing on the impact of tax policy on Wisconsin businesses. Between then and now, the Legislature crafted a budget proposal that would have provided $3.5 billion dollars in tax relief to all taxpayers. Unfortunately, most of that plan was vetoed leaving hundreds of thousands of taxpayers with minimal tax relief and billions of dollars of the taxpayers' surplus sitting in the state's checking account. Today, AB 386 gives state government another opportunity to return the taxpayer's surplus to working Wisconsinites who have been overcharged and overpaid in taxes.

This bill would reduce Wisconsin's third highest income tax bracket from 5.3% to 4.4% and make retirement income up to $100,000 ($150,000 married/filing separately) tax-free. These measures are a step in the right direction in addressing Wisconsin's business climate and workforce migration challenges.

Since 1911, WMC's mission has been to make Wisconsin the most competitive state in the nation to do business. The state's business climate ranks 27th in the nation, down from our peak at 25th in 2020 after years of consistent progress. In WMC's Summer 2023 Employer Survey we asked, "What is the one thing state government could do to improve Wisconsin's business climate?" Wisconsin employers said "reduce taxes" by more than a 2:1 margin over the next closest policy action (Reduce/Reform Regulations – 19%). Likewise, reduce taxes was again the top answer in response to "what is the one thing state government could do to help your business?" Businesses in all sectors and of all sizes, as well as individuals, have been feeling the pressures of inflation.

With a workforce more mobile than ever and able to pursue opportunities across the country, workers are flocking to states where jobs are abundant and taxes are low; on the flip side, businesses, when looking to start up or expand, look at the availability of workers and a state's tax and business climate. Unfortunately, Wisconsin employers are in tight competition to attract and retain employees and our tax climate is less enticing than other states, even compared to our immediate neighbors. Whether an employee or employer, increasingly the grass is looking greener in states other than Wisconsin.

Wisconsin's third income tax bracket (5.3%) is higher than the top rate, flat or moving to flat rate,

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or no income tax levied in 21 other states – that is 21 other competitors we must be competing with for workers. In fact, between 2020 and 2022, states with population gain had a top average income tax rate of 3.78%; Wisconsinites affected by the change in this bill are paying more than a point and a half *more* than states seeing recent population growth. Specifically looking at 18–34-year-olds, prime working- and family-age individuals, the average top income tax rate that saw the greatest growth in this demographic was 2.3%—*more than two points lower than what is proposed in this bill and significantly lower than Wisconsin's small business tax rate.* **Bottom line, Wisconsin must create a better tax climate for workers if we want to stem population losses, retain a robust worker pool, and remain competitive for employers to remain and expand in our state.**

Not only is Wisconsin over-taxing its workers and businesses, but after a lifetime of hard work, retirees' savings can be subject to income tax as well. Not only are workers seeking greener pastures for their work opportunities, but retirees also keep taxes in mind when evaluating where to spend their hard-earned retirement time and dollars. Wisconsin should be incentivizing a conducive environment for these individuals to retain the boost to our economy that comes with their sales and property taxes they pay. And especially with this demographic, inflation can devastate the value of retirement savings. AB 386 will help keep retirees in Wisconsin, as well as their retirement spending at Wisconsin businesses.

The bottom line is, for both businesses and individuals, Wisconsin cannot afford to do nothing about our tax climate; doing nothing is falling behind. Fifteen years ago Utah adopted a 5% flat tax, but more recently, Arizona moved to a 2.5% flat rate and Colorado a 4.4% rate; this left the president of the Utah Taxpayer Association saying, "We're no longer the cool kid on the block at all."[1]

Wisconsin's small business tax rate (7.65%) is currently *8th highest* in the nation. This is significant because approximately 90 percent of Wisconsin businesses are pass-through entities most of which are subject to this high rate. The tax bracket targeted in AB 386, 5.3%, is currently higher than 29 other states which have no or lower *top or flat* income tax rates. Even if this bill were to become law, Wisconsin workers would still have nearly 20 other states with no income tax or tax rates on par or below the proposed 4.4% rate, including six of our neighbors and regional competitors.[2] It should be noted that Governor Jared Polis in the blue state of Colorado, with a 4.4% *flat* rate, hopes to *eliminate* the state's income tax altogether![3]

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[1] Editorial Board, "The State Tax-Cut Movement," The Wall Street Journal (February 3, 2023), available at: https://www.wsj.com/articles/the-state-tax-cut-movement-budget-revenue-flat-tax-11675120292.
[2] Pennsylvania, 3.07% flat rate; Indiana 3.15% flat rate dropping to 2.9% by 2029 if triggers met; Ohio 3.99%; Iowa 3.9% flat rate by 2026; Michigan 4.05% flat rate; Kentucky 4.5% reducing .5% every year when triggers met.
[3] Ben Murrey, "Colorado on Track to Eliminate Its Income Tax," National Review (February 7, 2023), available at: https://www.nationalreview.com/2023/02/colorado-on-track-to-eliminate-its-income-tax/ ("I don't expect that we can fully eliminate the income tax by our 150th anniversary [in 2026], but let's continue to make progress.").

Wisconsin must compete against 43 states that have a lower top rate or no income tax at all. Nine states have no income tax (Alaska, Florida, Nevada, New Hampshire,[4] South Dakota, Tennessee, Texas, Washington, and Wyoming); another **13 states have a flat rate or are moving toward one currently** (Arizona, Colorado, Georgia, Iowa, Idaho, Illinois, Indiana, Kentucky, Michigan, Mississippi, North Carolina, Pennsylvania, and Utah).

Wisconsin *must* position itself as the most competitive it can be, both in the Midwest and nationally. AB 386 is a step in the right direction.

* * *

> "Research shows that people follow opportunity, but high taxes can serve as a deterrent. As other states take action, Wisconsin cannot rest on its laurels. A bold tax reform plan will help drive the state's economy forward." – WMC Foundation's *Wisconsin 2035* Report

As states across the country consider tax relief, Wisconsin cannot afford to fall behind. Wisconsin has one of the highest marginal tax rates for small businesses in the country. While AB 386 makes progress to better Wisconsin's tax climate for individuals and businesses, the state will continue to face worker migration challenges and a worsening business climate without comprehensive, significant tax reform for individuals and small businesses alike.

If recently re-elected Democrat Governor Jared Polis can make progress toward his goal of *eliminating* Colorado's individual income tax[5] and remain the "cool kid on the block," surely Wisconsin can charge "Forward" and return the taxpayers' surplus, the people's surplus, to those who have been overcharged by their government.

Thank you for your time and consideration of AB 386.

[4] New Hampshire taxes *only* investment income at 4%, which will be phased out at the end of 2026.
[5] *See supra* note 3.

TAX RATES MOVE PEOPLE

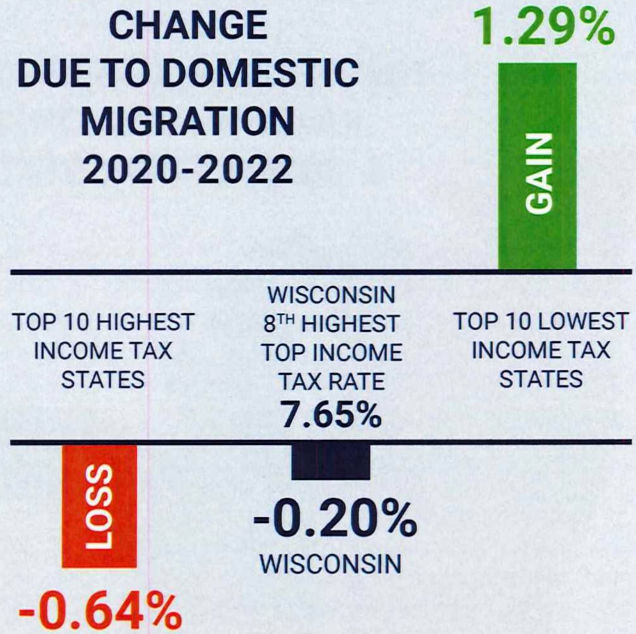
TOP 10 STATES WITH GREATEST % POPULATION LOSS & GAIN

6.82% AVG INCOME TAX RATE
(states with population loss)

Between 2020-2022, people moved from high income tax states for lower income tax states

3.78% AVG INCOME TAX RATE
(states with population gains)

AVERAGE POPULATION CHANGE DUE TO DOMESTIC MIGRATION 2020-2022



2.3%

Average 2023 tax rate of the top 10 states that saw the **largest percentage of 18-34 year-old population growth** from 2010-2020

Half of these states have **no income tax**

Nine of these top 10 states have a **top or flat rate at or below 5.0%**

This demographic grew by **13%** in these states

LOW TAX STATES

4 people move in for every 1 person who leaves

HIGH TAX STATES

2.5 people leave for every 1 person who moves in

Source: Redfin

Sources: U.S. Census Bureau, Author's Calculations and Redfin

FOR MORE INFORMATION CONTACT EVAN UMPIR, WMC DIRECTOR OF TAX, TRANSPORTATION & LEGAL AFFAIRS | EUMPIR@WMC.ORG | 608.258.3400

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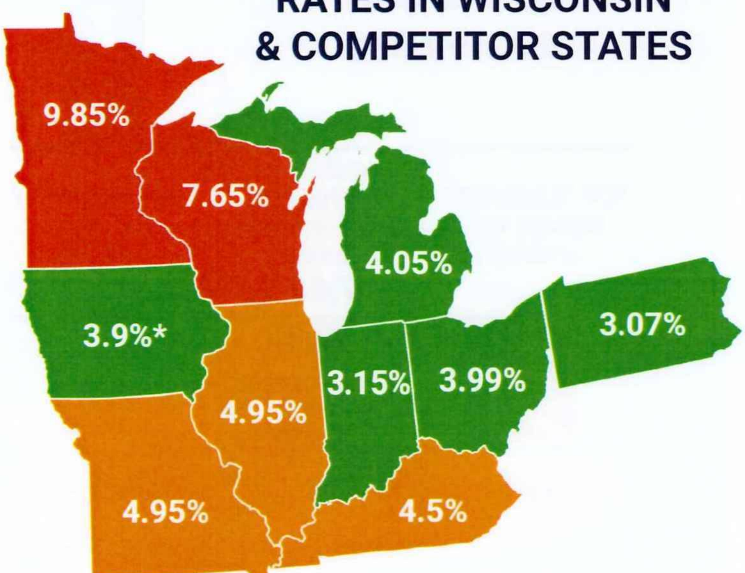
MAGIC NUMBER OF 5

STATES WITH TOP PERSONAL INCOME TAX RATES UNDER 5% FLOURISH

TOP PERSONAL INCOME TAX RATES IN WISCONSIN & COMPETITOR STATES



* Iowa is moving to a 3.9% flat tax in 2026

AVERAGE % POPULATION CHANGE DUE TO DOMESTIC MIGRATION (2020-2022)

STATES THAT GAINED AND LOST POPULATION DUE TO DOMESTIC MIGRATION (2020-2022)

	AVG STATE PERSONAL INCOME TAX RATES	
All States with **Population Loss & Growth**, 2020-2022	6.65% *(States that Lost Population)*	4.15% *(States that Gained Population)*
Wisconsin & Competitor States with **Population Change Due to Domestic Migration** 2020-2022	5.35% *(States that Lost Population)*	4.20% *(States that Gained Population)*
All States **18-34 Year-Old Population Change**, 2010-2020 (Avg % Change 4.9%)	5.41% *(States Below 4.9% Change)*	4.56% *(States Above 4.9% Change)*
Wisconsin & Competitor States **18-34 Year-Old Population Change** 2010-2020 (Avg % Change 2.2%)	5.51% *(States Below 2.2% Change)*	4.67% *(States Above 2.2% Change)*

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Wisconsin Economic Priority: REDUCE THE TAX BURDEN

Even with significant tax relief over the past decade, Wisconsin continues to be a high-tax state. In fact, Wisconsin is the eighth least tax-friendly state in the country for middle class families, and its high taxes are making the pain of historic inflation even worse. This is especially true for small businesses who file as pass-through entities and pay the individual income tax. Reducing the income tax for all Wisconsinites will make the state more competitive economically and more attractive to employers and workers alike. By reducing the income tax, businesses will have more money to invest into their workforce and local communities, while individuals will have more money in their pockets to afford groceries, gas and other everyday costs that keep going up.

What is the one thing state government could do to help your business? (Top 3 Answers)

REDUCE TAXES	28%
MAKE HEALTH CARE MORE AFFORDABLE	27%
REDUCE / REFORM REGULATIONS	23%

What is the one thing state government could do to improve Wisconsin's business climate?

REDUCE TAXES	44%
REDUCE / REFORM REGULATIONS	19%
MAKE HEALTH CARE MORE AFFORDABLE	14%
EDUCATION REFORM	8%
REDUCE SPENDING	6%
REFORM HR LAWS	5%
TORT / LEGAL REFORM	2%
OTHER	2%

WMC Wisconsin Employer Survey, June 2023

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August 29th, 2023

Representative John Macco
Ways and Means Committee Chair
Wisconsin State Assembly
Room 208 North, State Capitol
PO Box 8952
Madison, WI 53708

Dear Chairman Macco:

The American Foreign Service Association (AFSA) is writing to strongly support Wisconsin State Assembly Bill 386. I understand a hearing is taking place on the bill in the Assembly Committee on Ways and Means on August 30th, 2023. I ask that my statement of support below be included in the committee record on AB 386, and that AFSA be recorded as registering in support of AB 386 when the record for the hearing on this bill is finalized.

AFSA represents 16,800 members, including active-duty and retired Foreign Service officers and specialists at the Department of State, as well as members of the Foreign Service from the U.S. Agency for International Development, Foreign Agricultural Service, Foreign Commercial Service, Animal and Plant Health Inspection Service, and the U.S. Agency for Global Media. AFSA exists to support the United States Foreign Service, which deploys worldwide to protect America's people and advance U.S. interests and values.

Assembly Bill 386 would rectify one of the most significant financial burdens commonly cited by members of the Foreign Service upon retirement: taxation of their pensions.

Given that certain tax exemptions on pensions are already granted to retired state teachers, federal civil servants, Milwaukee City and county officials as well as military veterans under current Wisconsin state law, the inclusion of former Foreign Service members would be an appropriate and welcome addition.

This common-sense legislative update will rightfully enable retired members of the Foreign Service – diplomats, international development experts, and other patriotic professionals who protect the national security of the United States and often serve in dangerous and difficult places – to have parity with retired members of the Armed Forces.

In lieu of retiring abroad or in the vicinity of Washington, D.C., this change would also attract more former members of the Foreign Service to retire in Wisconsin.

Thank you for holding a hearing on AB 386, and I hope this bill becomes state law as soon as possible.

Sincerely,

Tom Yazdgerdi
President
American Foreign Service Association