



MEMO

TO: Senate Committee on Universities and Revenue

FROM: Chris Reader, IRG Action Fund Executive Vice President
Alex Ignatowski, IRG Action Fund Director of State Budget and Government Reform

DATE: April 25, 2023

RE: Testimony in support of SB 1, bold income tax reform

Chairman Hutton and members of the committee,

Thank you for holding this hearing today. Senator LeMahieu, thank you for authoring this important legislation. My name is Chris Reader. I'm the Executive Vice President of IRG Action Fund, the 501(c)4 advocacy partner of the Institute for Reforming Government. With me is Alex Ignatowski, our Director of State Budget and Government Reform.

With tax day having just passed us in Wisconsin, this bill is very timely. Taxpayers are frustrated that they have to pay so much to the state government, especially when government spending seems unchecked, is higher per capita than many other states including all of our neighbors, and at a time when the state has a \$7 billion dollar surplus. Middle class families are also feeling the pinch as inflation woes continue, and a recession seems just around the corner. When the Institute for Reforming Government's community engagement team traveled the state last year, traveling over 5,000 miles and meeting with hundreds of people, high income taxes came up as a problem in need of addressing regardless of zip code or industry. From farmers to entrepreneurs, high taxes were continually discussed as an anchor on the state's economy.

The status quo is unacceptable. You have an opportunity before you to rework the state's tax framework and help middle class workers bring home bigger paychecks while injecting a boost into the economy. It's time to make Wisconsin the best state in the midwest and competitive nationally when it comes to our income tax. Senate Bill 1 would do just that by ushering in a new era of bold tax policy in the Badger state. It would put Wisconsin on the map for investors, workers, and employers.

When you support SB 1, you'll have the support of the voters. When voters were asked about the topic of taxation back in December, nearly six-in-ten Wisconsin voters said state taxes are too high. When asked specifically about eliminating the state personal income tax, voters were very open - with a plurality of 45% already in support. Voters support bold tax reform because

they understand that if you're not growing, you're losing out. And Wisconsin is currently losing out. We're losing retirees to states that don't tax retirement income. We're losing entrepreneurs and capital investment to states with more favorable tax structures. We're losing families and workers to states with more job opportunities, and to states that let them keep more of their paycheck each week.

Employers all over Wisconsin are still struggling to find enough workers - from manufacturing to healthcare, education to retail - Wisconsinites are looking to you to help turn the fortunes of our state around.

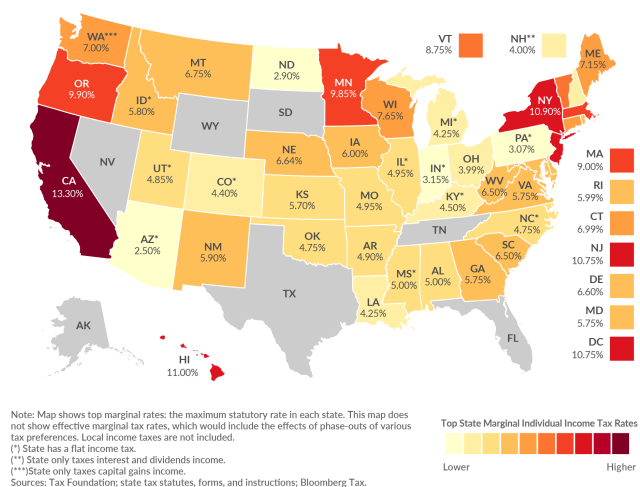
Looking at migration patterns and it is clear - people continue leaving high income tax states in favor of low tax and even no tax states. That's why Iowa, Mississippi, Arkansas, even the Democratic Governor of Colorado, are looking to flatten and eliminate their income taxes. The battle for workers is real - and right now Wisconsin is not in the game.

One of the driving reasons for support of bold tax reform is the current tax climate in Wisconsin. We currently rank 32nd nationally according to the Tax Foundation. We have the second highest top bracket rate in the midwest (second only to Minnesota at 9.85%) and we are one of only two midwest states that do not already have or are not moving towards a flat tax. Even Illinois has a flat tax rate of 4.95%, and when Illinois voters were asked to move to a progressive tax system a few years ago, voters rejected the notion in favor of staying with a flat tax system. Wisconsin's tax policy is outdated, leaving us uncompetitive with surrounding states. You now have the opportunity to enact real, transformative tax reform.

Wisconsin's high tax burden has driven higher levels of spending too. The 1999-2001 state budget spent \$44.2 billion over the biennium. The current 2021-2023 budget will spend \$89.2 billion. In the space of 20 years we have doubled our spending. If you adjust for inflation, the 1999-2001 budget would equal \$79.2 billion in 2023 dollars. This amounts to a 13% increase in spending over the same time period.

When you compare Wisconsin's spending to other midwest states, the picture doesn't look any better. According to the Kaiser Family Foundation, Wisconsin spends more per capita than any of our neighboring states. At \$10,067 per capita, we spend almost \$1,000 more than Illinois.

Top Marginal State Individual Income Tax Rates (as of January 3, 2023)



TAX FOUNDATION

@TaxFoundation

We need to change the way Wisconsin taxes and spends if we want to compete with our neighboring states for jobs, workers, and families. Tax reform is a key component to making Wisconsin competitive again.

Rank	State	Spending Per Capita
1	Wisconsin	\$10,067
2	Illinois	\$9,118
3	Iowa	\$8,932
4	Minnesota	\$8,413
5	Michigan	\$6,807

**Kaiser Family Foundation*

The individual income tax in Wisconsin does not just affect individual taxpayers. It is important to note that 90% of small businesses in Wisconsin pay the individual income tax as a pass-through and that 75% of these businesses are taxed at the highest bracket. When you consider that small businesses in Wisconsin employ half of the workforce in our state, you can start to see the huge impact a flat tax would have on the economy. Right now, you have an opportunity to change our course and set Wisconsin apart from other states. The flat tax takes us in that direction.

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Wisconsin has a historic opportunity. We have a \$7.1 billion surplus. Legislative leaders and Governor Evers have all said that the state should provide meaningful tax relief again this session - the question is how bold are you willing to be? Will you only work around the edges, pick winners and losers, or take bold action and bring a flat tax to Wisconsin? If you want to grow the economy, increase take home pay of all workers, help small businesses invest in new jobs, and even increase revenue to the state, you will support this bill. Studies by CROWE and other economists have shown that the greater the tax reform, the greater the economic benefit for families and businesses. Today you have a once-in-a-generation opportunity to right the direction of our state. The Legislature and Governor should agree to pass transformational tax reform and make our state competitive once again.