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KIDS FORWARD
Every Kid. Every Family. Every Community.

# Taxes:

## 2017-2018 Legislative Summary

The second half of a two-year legislative session typically includes debate on a number of tax bills, especially when updates to budget projections increase the size of the state's estimated closing balance. That was true again this year, and as the legislature often does in an election year, it enacted tax cuts that are expected to leave the state with a perilously slim budget cushion.

The following topics are some of the more significant tax proposals considered by the legislature since last summer, starting with three bills that were enacted:

### Lawmakers Approve a One-Time Child Tax Credit and Sales Tax Rebate

Late in the session, the Governor proposed a bill containing two new short-term tax breaks—a $100 per child tax credit for all Wisconsin families and a brief sales tax holiday. The new child tax credit, which was signed into law in 2017 Act 367, is structured as a rebate against sales taxes. Families can apply for the one-time credit on the Department of Revenue website between May 15 and July 2 of this year. Child tax credits are typically set up as credits against income taxes, but the Governor was keen on using a mechanism that would deliver the tax credits before the fall election.

Although the political benefit of quickly distributing the credits was probably the primary reason for structuring them as sales tax rebates, going that route also means that all families with children qualify. That would not have been the case for low-income families if state policymakers had approved a non-refundable income tax credit. The new credit is estimated to cost the state $122 million.

The other part of this tax bill is a brief sales tax holiday in early August. At this point it is planned as just a one-time event. The legislature scaled back the Governor's proposal by narrowing the range of items eligible for the short-term sales tax exemption. It will apply to school supply purchases of $75 or less, clothing items costing not more than $75 each, computers that cost $750 or less, and computer supplies where each item is $250 or less. The Governor used his item veto authority to expand the duration of the sales tax holiday to five days, August 1st to 5th, which raises the estimated cost of this tax break to $14.8 million.

## Making a Huge Long-Term Commitment to Foxconn

Many fiscal conservatives have argued that it is not the role of government "to pick winners and losers." However, the majority party in Wisconsin jettisoned that principle in a big way when they approved a bill last fall creating huge subsidies for the Foxconn corporation. Foxconn could be the beneficiary of more than $4.5 billion of new subsidies, including nearly $3 billion of state tax breaks over a 15-year period:

- up to $1.5 billion for a new payroll tax credit,
- up to $1.35 billion for a new capital expenditure tax credit, and
- an estimated $139 million sales tax exemption

Although the two largest tax breaks created for Foxconn are described as tax credits, that's a bit misleading. A tax credit that has been phased in over the last five years already means that manufacturers like Foxconn will have little or no income tax liability in Wisconsin. As a result, the new "tax credits" approved specifically for Foxconn will be checks that Wisconsin is now obligated to send to the corporation each year, potentially totaling as much as $2.85 billion in state spending over 15 years.

## A New Tax Break Approved for Private School Tuition

Late in the session, the legislature approved a bill that makes some relatively minor changes in the laws relating to corporate income taxes that are expected to have little fiscal effect. At the tail end of the session, legislators slipped in an amendment to that bill (AB 259) that links Wisconsin tax law to some of the changes in corporate and individual income taxes approved by Congress in December.

One of the federal changes incorporated into the new state law (2017 Act 231) allows the use of "section 529" accounts for private elementary and secondary school expenses. These tax-sheltered savings accounts had previously only been allowed for higher education. Although federal law simply allows earnings in these accounts to grow tax free, Wisconsin and a number of other states have been providing tax deductions for contributions to 529 accounts.

Under Act 231, Wisconsinites will be able to deduct up to $3200 per year from their taxable income for each child in a private school. That means a grandparent with five grandchildren could deduct as much as $16,000 per year from their income for contributions to 529 accounts for those children. The new deduction cannot be used by people who claim the existing deduction for private elementary and secondary school tuition, and the Legislative Fiscal Bureau expects the fiscal effect to be negligible for the next few years. However, there might gradually be a significant cost from expanding the allowable use of 529 accounts.

## Changes in the Earned Income Tax Credit (EITC)

As part of the Special Session on public benefit issues, the legislature approved a bill that might change when parents receive the EITC, but legislators did not consider other EITC changes that advocates would prefer. The Special Session bill relating to the EITC, which is now Act 270, seeks to create a pilot and then a permanent program for making periodic payments to eligible recipients of the federal and state EITC, rather than annual payments. The pilot project and expansion statewide are both contingent upon reaching an agreement with IRS.

Kids Forward supports the idea of periodic payments, but we are concerned that EITC recipients will not be given a choice and that the bill will expand the pilot statewide regardless of the outcome of that experiment. We would have liked to see state lawmakers expand eligibility for the EITC to childless adults, which was proposed in AB 970. Wisconsin is the only state that has an EITC for parents and not for adults without dependent children.

## New Kimberly-Clark Tax Breaks Were Not Approved

One of the concerns raised about the new tax credits for Foxconn was that legislators would face great pressure to offer similar treatment to other corporations, including corporations that are merely retaining jobs rather than adding them. It didn't take long before that happened. Early this year Kimberly-Clark announced it would close plants in Neenah and Fox Crossing, cutting 600 jobs. Governor Walker soon proposed a bill to grant the consumer products company tax credits similar to those created for Foxconn.

The Assembly quickly passed the Kimberly-Clark bill, which could increase state spending for "tax credits" by roughly $7 million per year. However, the Senate failed to pass the proposal. One reason why the Senate didn't vote on AB 963 is that the company never promised that they would retain the jobs if they got a new tax break. If that changes, some legislators are likely to propose holding a special session to take up the bill.

## Legislators Again Reduce Budget Reserves to a Very Low Level

In mid-January, the Legislative Fiscal Bureau estimated that the state was on track to finish the 2017-19 budget period with a net budget balance of $457 million. The tax cut and spending bills approved since then by the legislature will reduce the estimated closing balance to less than $200 million. That amounts to less than four days of state spending, which is far less of a budget cushion than a fiscally responsible state should plan to have. The delayed effect of the large payments to Foxconn will add to the state's future budget challenges.

## Proposals Affecting Taxes in 2017-2018 Legislative Session

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| **Passed** | Authorizes nearly $3 billion of tax breaks for Foxconn. |
| **Passed** | Makes minor changes in corporate income tax law and incorporates into state law some of the recent federal tax changes, including allowing the use of 529 accounts to pay for elementary and secondary school tuition. |
| **Passed** | Directs DOR to seek IRS approval to create a pilot and then a permanent program for making periodic payments to eligible recipients of the federal and state Earned Income Tax Credit. |
| **Passed** | Creates two one-time, pre-election tax breaks: a $100 per child tax credit and a 5-day sales tax holiday on certain purchases. |
| **Did Not Pass** | Would increase eligibility for the Homestead tax credit and size of the credit by adjusting it for past inflation and annually for future inflation. |
| **Did Not Pass** | Would make Kimberly-Clark eligible for tax credits similar to the ones designed for Foxconn. |
| **Did Not Pass** | Would make childless adults eligible for the state's Earned Income Tax Credit and increase the EITC for parents with one or two kids – by setting the EITC at 34% of the federal credit for all parents and childless adults. |