A DECADE OF CHANGE

WISCONSIN'S INCOME TAX SINCE 2012

Dale Knapp, Director

FORWARD ANALYTICS
forward-analytics.net
February 2025

Executive Summary

A Decade of Change: Wisconsin's Income Tax Since 2012

The largest source of revenue for Wisconsin state government is the individual income tax, and it has undergone significant change since 2012. The most visible change has been the large reduction in income tax rates. From 2013 through 2023, state legislators and governors have agreed to cut rates four times, generating significant tax relief for Wisconsin taxpayers. These rate cuts saved taxpayers more than $7 billion through 2023.

The net effect of the cuts was to reduce tax rates:

- from 4.6% to 3.5% in the lowest income tax bracket;
- from 6.15% to 4.4% in the second bracket;
- from 6.5% and 6.75% to 5.3% in the third bracket, which underwent a merging of two brackets in 2013; and
- from 7.75% to 7.65% in the top bracket.

In terms of reducing taxes owed, a simulation of 2023 taxes under current rates compared to 2012 rates shows that the largest cuts in percentage terms went to single filers with incomes under $48,000 and married-joint filers with incomes less than $68,000. Their taxes were reduced 24% to 26%. In 2022, 69% of single filers and 39% of married, joint filers were in these income groups.

Savings generally declined as income rose. Single filers with incomes from $400,000 to $600,000 and married filers with incomes from $530,000 to $800,000 saw reductions ranging from 10% to 15%. Filers with incomes of $1 million or more saw cuts of 8% or less.

The rate cuts generally improved the state's national ranking on various income tax measures, though the improvement was less than might be expected as many other states cut taxes during these years. In 2012, Wisconsin's 4.65% bottom rate was 4th highest among the 35 states (including D.C.) with a graduated income tax. In 2025, it has the 8th highest rate among the 28 states with this type of income tax structure. Wisconsin's ranking on the top rate worsened from 11th highest to 9th highest.

When comparing income tax collections per capita and relative to personal income, the state saw solid improvement. It's ranking dropped from 9th to 29th relative to personal income, and 13th to 26th per capita.

A Decade of Change

Wisconsin's Income Tax Since 2012

Dale Knapp, Director

The individual income tax is the largest source of revenue for Wisconsin state government, generating $9.4 billion in 2023. That amount accounted for 45% of state general fund taxes in that year.

Over the past decade or two, Wisconsin's income tax has been changing, both visibly and invisibly. Most noticeable have been the multiple rate cuts since 2012 that generated significant savings for taxpayers. According to the state's Legislative Fiscal Bureau, the six rate reductions saved taxpayers more than $7 billion through 2023. When other changes to the income tax during this period are included, the savings exceeded $8.5 billion.

Among the "invisible" changes is the age makeup of filers. The share of filers in their peak earning years has declined more than four percentage points since 2008. At the same time, the share of filers in their retirement years increased more, rising six points. Both trends have implications for income tax revenues.

This report takes an in-depth look at how Wisconsin's income tax has changed since 2008. It explores the size of the tax cuts by income and filer status, how the tax has changed in terms of "who pays," and what these changes might mean for state revenues in the coming years. Before addressing these topics, a brief overview of the Wisconsin income tax is provided, focusing on the aspects related to this study.

INCOME TAX OVERVIEW

The amount of income tax a resident owes to the state depends primarily on the filer's income after deductions and exemptions (taxable income), tax rates, credits for which the filer may be eligible, and filing status.[1] While some taxpayers itemize deductions, much of the analysis in this report is based on filers taking the standard deduction. Additionally, eligibility for credits varies widely and are not part of this study. The primary focus is on the interactions of income, filing status and changing tax rates.

Filing Status

Wisconsin offers five options for filing status, which is important because they affect both the size of the standard deduction and the applicable tax rates. The two most used are single and married, filing jointly. Nearly 85% of tax year 2022 filers fell into one of these two categories.

Two other options are available for single filers: dependent of another filer and head of household. To qualify for the latter filing status, the filer must be unmarried and have a qualifying dependent for which they pay more than half the cost of support.

Married filers also have a second option; both parties can file separately. Generally, filing jointly results in less tax being paid, though there are situations where the couple may benefit from filing separately.

Standard Deduction and Exemptions

Wisconsin has a standard deduction that declines as adjusted gross income (AGI) rises. In 2023, the maximum deduction was $12,760 for single filers and $23,620 for married-joint filers. The deduction gradually declines and is eliminated at an AGI of $124,500 for single filers and $145,976 for married, joint filers.

1 *Single, married filing joint, married filing separately, head of household, or dependent.*

Since 2012, Wisconsin income tax rates have been cut four times, with rates on lower incomes cut the most and the top rate reduced minimally.

The state also allows a $700 personal exemption deduction for the filer, spouse, and each dependent. Those 65 or older get an additional $250 deduction. Subtracting the standard deduction and all personal exemptions from AGI yields taxable income.

Tax Brackets and Rates

Like most states, Wisconsin has a graduated income tax,[2] which means there are multiple tax brackets and rates. Each bracket is a taxable income range on which a specified tax rate is applied. As the income range rises, so does the applicable rate. Since 2023, the tax rates associated with the four brackets were 3.5%, 4.4%, 5.3%, and 7.65%. The income ranges for the brackets are adjusted each year to account for inflation.

The brackets are cumulative in that they are stacked on top of one another (see Table 1). For example, a single filer with taxable income of $40,000 would pay 3.5% on the first $13,810 of taxable income, 4.4% on the next $13,820, and 5.3% on the remaining $12,370.

2 *In 2023, 29 states had a graduated income tax; 12 had a flat tax (one tax rate for all income); two taxed only interest, dividends, or capital gains; and seven had no income tax.*

Table 1: Wisconsin 2023 Tax Brackets
Income Cutoffs and Tax Rates for Single and Married-Joint Filers

	Single or Head of Household		Married, Filing Jointly	
	Taxable Income		Taxable Income	
Rate	Over	But Not Over	Over	But Not Over
3.50%	$0	$13,810	$0	$18,420
4.40%	$13,810	$27,630	$18,420	$36,840
5.30%	$27,630	$304,170	$36,840	$405,550
7.65%	$304,170		$405,550	

The cumulative tax brackets mean that tax rate cuts affect taxpayers differently. Every filer with taxable income benefits from a reduction in the lowest rate. However, a cut in the second bracket benefits all taxpayers who have taxable income that falls within that bracket. The lowest income filers do not benefit from that cut. That will become evident as we explore the rate cuts since 2012.

A DECADE OF RATE REDUCTIONS

Income taxes can be reduced in a variety of ways, but the most common way is through rate reductions. In 2012, Wisconsin had five income tax brackets with rates ranging from 4.60% in the lowest bracket to 7.75% in the highest. Since then, rates were cut five times, and the number of brackets was reduced from five to four.

Reductions by Bracket

Since 2012, rates have been reduced in every bracket with the number and size of the reductions varying. Rates in the two bottom brackets were cut four times: from 4.6% to 3.5% in the bottom bracket and from 6.15% to 4.4% in the second-lowest bracket.

The current third tax bracket is a combination of the third and fourth brackets that existed in 2012 and merged in the following year. The current rate in this bracket is 5.30%, down from 2012's 6.50% and 6.75%, respectively.

Finally, very little action was taken on the top rate. It was cut just once in 2013 from 7.75% to 7.65%.

Rate Cut Impacts

Before exploring the overall impact, it is useful to understand the tax impact of each rate cut on income within each bracket. With that information in hand, it will be easier to understand the overall impacts for filers at various income levels.

In the bottom bracket, the 1.1 percentage point rate cut from 4.6% to 3.5% reduced taxes owed by $11 (from $46 to $35) for every $1,000 of taxable income in that bracket. In percentage terms, the reduction was 23.9%.

In the second bracket, the 1.75-point rate reduction cut taxes owed by $17.50 (from $61.50 to $44) for each $1,000 in that bracket. In percentage terms, this was a 28.5% savings for the taxpayer.

With two brackets merged to create the current third bracket, there are two reductions here. For taxable income that would have fallen within the 2012 third bracket, the cut was $12 (from $65 to $53), or 18.5%. In the upper part of the bracket, the $14.50 reduction was 21.5%. Finally, the rate cut in the top bracket was just $1 or 1.3%.

With rate reductions varying by bracket, the impact on taxpayers differs depending on income. Two simulations of the taxes owed for single taxpayers with incomes of $13,000 or more and for married-joint filers with incomes above $25,000 are run. Because of the standard deduction and personal exemptions, filers with incomes less than these lower end amounts would have paid no state income tax. The first simulation for the two filer types applies 2023 tax rates to taxable incomes. The second applies 2012 rates.

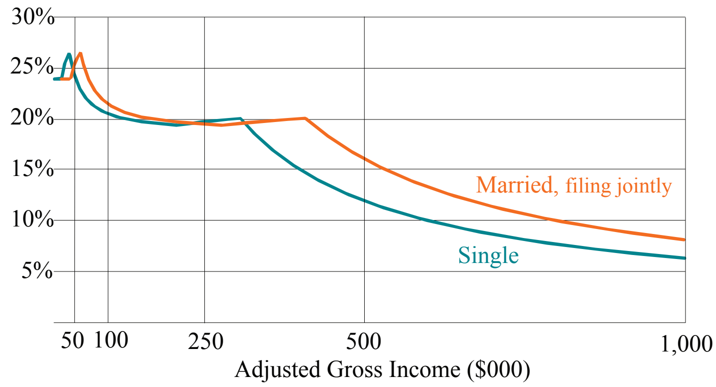
The difference in tax owed from the two simulations (2023 tax compared to 2012 tax) measures the effect of the rate cuts at each income level. The results in percentage terms for adjusted gross income up to $1 million are summarized in Figure 1. Several takeaways are apparent.

First, broadly speaking, the largest percentage cuts were for "lower-income" filers. For single filers with incomes under $48,000 and married-joint filers with incomes less than $68,000, the rate cuts reduced their tax owed by 24%-26%. In 2022 (2023 detailed data was not available), 69% of single filers and 39% of married-joint filers were in these income groups.

Table 2: Tax Cuts by Income
Income Cutoffs and Tax Rates for Single and Married-Joint Filers

Single Filers			Married Filers		
	Savings			Savings	
AGI	Dollars	Pct.	AGI	Dollars	Pct.
$20,000	$74	23.9%	$40,000	$194	23.9%
$40,000	$412	26.0%	$80,000	$870	22.6%
$60,000	$680	22.4%	$120,000	$1,445	20.8%
$80,000	$949	21.1%	$160,000	$1,986	20.1%
$100,000	$1,218	20.5%	$200,000	$2,466	19.7%
$150,000	$1,854	19.7%	$300,000	$3,722	19.5%
$300,000	$3,885	20.0%	$600,000	$5,465	13.3%
$500,000	$4,150	11.9%	$1,000,000	$5,865	8.1%

Figure 1: Tax Cuts by Income
In Percentage Terms, 2012 vs. 2023 Rates



Second, homing in on that group, filers with taxable incomes near the top of the second tax bracket received the largest tax cuts of 26%. These taxpayers benefited from the 24% tax reduction in the lowest bracket and the full benefit of the 28% cut in the second bracket.

Third, savings in percentage terms generally decline as income rises. Again, that is due to the size of the rate cuts in each bracket. As mentioned above, the reductions were 18.5% and 21.5% in the third highest bracket (formerly two brackets) and 1.3% in the highest bracket.

Finally, while filers with the highest incomes experienced the smallest cuts in percentage terms, many "high income" filers still saw taxes significantly reduced. For example, single filers with incomes from $400,000 to $600,000 and married filers with incomes from $530,000 to $800,000 saw reductions ranging from 10% to 15%.

Dollars vs. Percentages

A second way to look at the reductions is in dollar terms. Table 2 shows the cuts in dollars at various income levels. It also displays the reductions in percentage terms to highlight the dichotomy in the two ways of looking at the changes.

Since higher income taxpayers pay more tax than lower income filers, their cuts are larger in dollar terms. For example, a married couple with income of $120,000 paid $1,445 less in taxes under the 2023 rates compared to the 2012 rates. That was about 66% more than the $870 reduction for a couple earning $80,000. And yet, in percentage terms, the reduction for the lower income couple was greater. This dichotomy is instructive.

For single filers with incomes under $48,000 and married-joint filers with incomes less than $68,000, the rate cuts reduced their tax owed by 24% to 26%.

Both couples have taxable income that falls within the third tax bracket and thus get the full $525 savings due to the rate cuts in the first and second brackets. However, the $80,000 couple has $28,720 of income in the third bracket resulting in an additional $345 tax cut. The $120,000 couple has more than $76,000 of taxable income in that bracket and saves over $900 in taxes. Thus, they save more overall in dollar terms.

However, the tax rate in this range of income was cut 18.5% compared to 24% or more in the lower brackets. Thus, the higher income couple had more income subject to this smaller percentage reduction, resulting in a smaller overall percentage decline.

Feeling the Impact?

While the impact of the tax rate cuts was significant for nearly all filers, many may have experienced, in real life, a lesser decline due to rising incomes. As mentioned, tax brackets and standard deductions are adjusted for inflation each year. The overall adjustment between 2012 and 2023 (the last year for which detailed tax data were available) was 31% for single filers and 34% for married filers.[3] Those with incomes rising faster would have seen more income taxed at their top applicable rate or would have moved into a higher tax bracket.

Although we cannot track individual filers over time, average increases in adjusted gross income between 2012 and 2022 are consistent with this occurring. Over the 10 years, average adjusted gross income rose 38%, well above the 21% inflation adjustment in tax brackets and standard deductions. The 56% increase for single filers was more than double the inflation adjustment.

3 For married filers, the "inflationary" increase includes a 2016 legislative increase.

A COMPETITIVE IMPROVEMENT

While the income tax cuts were enacted primarily to ease the burden on residents, they also made the state's income tax more competitive nationally.

Income taxes are complex with many provisions that affect the amount of tax paid by filers. States differ in what income is taxed, deductions and exemptions, rate structure, and tax credits. Wisconsin's competitiveness on the income tax with other states is measured in several ways here: on its relative rank on the lowest and highest tax rates compared to other states, and on its overall income tax burden measured on a per capita basis and as a share of personal income.

In any single year, each of these measures provides an incomplete look at a state's competitiveness on the income tax. For example, one state could have a high top rate but only apply it to very high incomes while another state could have a slightly lower rate applied to much lower incomes. In that case, the first state could have the higher rate and yet be considered more tax friendly than the second.

By looking at changes in each of these measures, we explore relative movement. In other words, we ask the question: Is Wisconsin becoming more or less competitive on this tax relative to other states?

Rate Competitiveness

While Wisconsin made significant changes to its income tax after 2012, most other states did as well. Eight states, including neighboring Iowa, moved from a graduated income tax to a flat tax, bringing the total number of "flat tax" states to 14 in 2025. This year Iowa joins Illinois and Michigan with a flat income tax. Massachusetts moved from a flat tax to a graduated tax by adding 4% tax on taxable incomes over $1 million. Among the 28 states with graduated income taxes in both years, 23 made changes to their rates.[4,5]

Most of the changes were to lower rates. Some states reduced the number of brackets along with

4 Nine states (Alaska, Florida, Nevada, New Hampshire, South Dakota, Tennessee, Texas, Washington, and Wyoming) do not have an income tax. In 2012, New Hampshire and Tennessee taxed only interest and dividends.

5 Includes Washington, D.C.

rate cuts and a few states raised rates, particularly for higher income filers.

The end result of these changes was an improvement in Wisconsin's competitiveness in its bottom rate and a slight worsening in its top rate. In 2012, Wisconsin's 4.65% bottom rate was 4th highest among the 35 states with a graduated income tax in that year and third highest among the 27 states with a graduated income tax in both years. In 2025, it has the 8th highest rate among the states with this type of tax structure.

At the top end, the Badger State had the 11th or 10th highest rate, depending on the group of states included. By dropping that rate just 0.1 percentage point, Wisconsin now has the 9th highest rate among the 27 states with a similar tax structure.

Average Taxes Collected

Changes in tax rate ranks can tell part of the competitiveness story, but it is incomplete. Rate changes in the middle part of the income distribution may be more impactful than changes at the top or bottom. Comparing those are difficult because some states have many brackets and some have few.

Looking at average income taxes paid can help fill in the story. Changes in average income taxes per capita and taxes relative to total personal income reflect the effects of all the income tax changes, not just the effect of rate changes. Looked at this way, Wisconsin has become much more competitive on the income tax.

Wisconsin has a long history of having high income taxes by these measures. On both, it ranked among the top 11 from 1993 to 2004 and among the top 15 in every year but one from 2005 through 2012. The state ranked 17th relative to income in 2007.

With all the changes to the state's income tax since then, Wisconsin has become much more competitive with other states. In 2012, Wisconsin ranked ninth relative to personal income and 13th per capita. As of 2022, the latest year that data are available, the state's position dropped to 29th and 26th highest, respectively, relative to the 44 states plus D.C. with an income tax.

DEMOGRAPHIC CHANGES

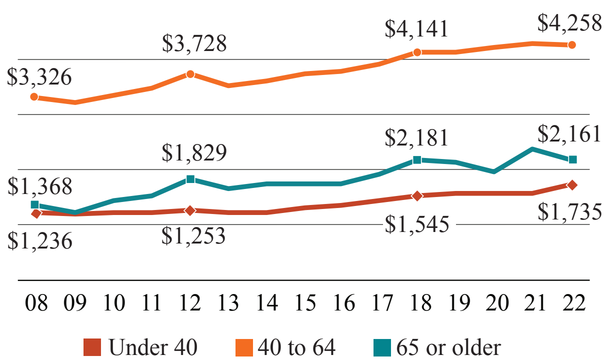
The rate cuts and other changes to Wisconsin's income tax have had positive, "visible" effects on taxes paid by Wisconsin residents. But, the state's rapidly changing demographics are having, and will continue to have, an "invisible" effect on state collections.

Due largely to rate cuts, Wisconsin's income tax per capita declined from13th highest among the states in 2012 to 26th highest in 2022.

The amount of income tax individuals and couples pay depends on a variety of factors, but income is the most important. On average, income, especially taxable income, changes with age. Young adults just beginning their working years have relatively low incomes. For most people, peak earning years begin after 40 and end with retirement. After retirement, average taxable incomes are again relatively low. Figure 2 shows this pattern.

Because incomes are related to age, the age distribution of the population can affect collections. Income tax collections will generally be much higher when many filers are in their peak earning years compared to periods when more filers are either young or old. Since at least 2008, this has been happening. The share of filers in peak earning years has been falling.

Figure 2: Average Wisconsin Income Tax Paid
By Age of Filer, 2008-2022



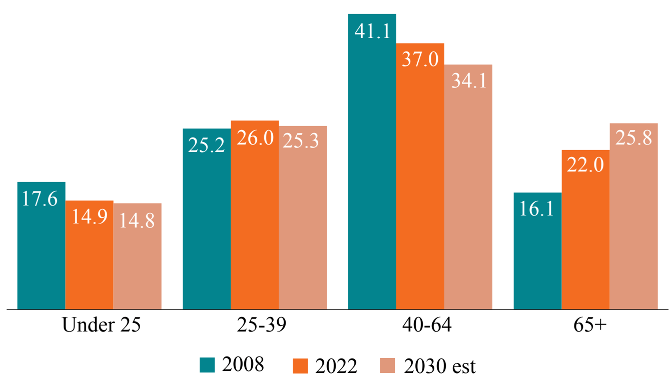
The share of income tax filers in their peak earning years declined from 41% in 2008 to 37% in 2022, negatively affecting income taxes collected.

In 2008, filers ages 40 to 64 comprised 41.1% of income tax returns filed. By 2022, that percentage had fallen to 37%, a decline of 4.1 percentage points (see Figure 3). At the same time, the share of filers ages 65 or older increased six percentage points from 16.1% to 22%.

To understand the impact of this shift, we created a counter factual that applied the 2008 age distribution (in percentage terms) to the 3.1 million returns filed for 2022. The average tax paid within each age group was applied to the new distribution of filers, generating an estimate of total taxes that would have been paid had the distribution of filers remained unchanged since 2008.

The results indicate that the shifting age distribution cost the state $160 million in 2022. It collected $8.46 billion in that year, but would have collected $8.62 billion under the 2008 distribution of filers.

Figure 3: Share of Income Tax Filers (Percentages)
By Age of Filer in 2008, 2022, and 2030 estimates



This demographic shift is likely to continue to affect state income taxes. Recently released population projections from the Wisconsin Department of Administration (DOA) can be used to create a similar counter factual: how might the expected age changes in Wisconsin's affect collections? Based on the DOA forecast, the number of filers ages 40 to 64 is likely to decline to about 34% of filers in 2030, while filers 65 or older will climb to nearly 26% of the total.

Applying the expected population shift to the 2022 tax numbers indicates that tax collections will be significantly affected. This hypothetical indicates that changing demographics will have a negative impact on collections through the rest of the decade. In 2030 alone, that impact will be about $198 million.

The DOA population projections also indicate a likely decline in Wisconsin's adult population after 2030. Although the decline is expected to be relatively small, less than 2%, it will affect growth in collections.

To deal with inflationary increases in the costs of state programs, tax revenues need to grow. Barring tax law changes, that growth is attained through rising incomes and growing populations. When population stops growing, collection growth slows.

FINAL THOUGHTS

The income tax reductions since 2012 provided significant tax relief for state taxpayers. They also helped the state's national "image" in terms of tax burden. Historically, Wisconsin has been viewed as a "high income-tax state," typically ranking among the top 15 states in terms of income taxes relative to personal income. Having now moved into the bottom half of states, that image should fade.

At the same time, state government needs reliable revenue sources to fund the services it provides and the aid it returns to local governments to help fund their services. With the exception of 2020, a strong economy for the past decade has generated sufficient revenues, evidenced by the state's approximately $4 billion surplus. It should be noted, however, that the primary driver of the surplus was much greater than anticipated corporate income taxes, which tend to be volatile.

FORWARD ANALYTICS
forward-analytics.net

22 E. Mifflin St., Suite 900
Madison, WI 53703
608.663.7188
forward-analytics.net