

February 19, 2009

STATE BUDGET WOES

Critics worry about scope of tax plan

Democrat says increase is overdue.



Applauding Gov. Jim Doyle during his budget address Tuesday night are, from left, Assembly Speaker Mike Sheridan, D-Janesville, Senate President Fred Risser, D-Madison, and Rep. Anthony Staskunas, D-West Allis.

Gov. Jim Doyle's proposed higher income tax rate on Wisconsin's wealthiest residents would leave the state with one of the highest top tax rates in the country — tied for 11th.

But that rate would only kick in for married couples making more than \$300,000 a year — making that single bracket one of the most progressive in the country.

That contrast will provide fodder both for conservatives who are already attacking the tax as a jobs killer and for liberals who say the tax is only asking those with the most means to pay their fair share.

Besides the income tax, Doyle's budget includes \$257 million in arcane new corporate taxes that weren't broken out in his budget address Tuesday. And Doyle's budget raises taxes and fees by at least \$272 million more than the \$1.4 billion his administration announced Tuesday, for a total of at least \$1.6 billion, a Wisconsin State Journal review found.

Doyle proposed the new taxes and spending cuts as part of a package to close a \$5.9 billion state budget shortfall. Conservatives reacted with outrage Tuesday, saying the moves would strike a blow to a state economy that is already struggling.

"The totality of all this stuff is breathtaking," said Jeff Schoepke, director of tax policy for business lobby Wisconsin Manufacturers & Commerce.

Democrat Support

But Democrats like Rep. Mark Pocan, D-Madison, co-chairman of the Legislature's budget committee, said that Doyle's taxes — mainly aimed at corporations and higher-income residents — were overdue.

"Our goal has been to provide whatever fairness we can through the tax code so working families won't feel as much pain," said Pocan, who has advocated for many of the measures.

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Doyle's budget proposal included a range of tax increases and some tax decreases, including:

- \$272 million in taxes over two years on oil companies. That's less than the \$544 million over two years that Doyle aides mistakenly told reporters yesterday.
- \$95 million more on Wisconsin residents by lowering the state's exemption for capital gains taxes from 60 percent to 40 percent. That exemption would remain among the largest in the country.
- \$93.2 million over two years by using all of certain sales that companies make to figure their corporate income taxes. The state currently counts only a portion of these "throwback" sales in figuring corporate taxes.
- \$112 million by eliminating a state match for a federal deduction for companies that do manufacturing or processing in the United States, but not necessarily in Wisconsin, and another measure to increase some sales taxes for companies
- A decrease of \$46 million in taxes because of technical changes
- A decrease of \$12 million in tax credits for investors in high-tech companies and for companies' research and development, along with \$2 million in tax credits for dairy and meat processing businesses and several other tax deductions that would take effect in future budgets.

Tax Increase Plan

The most attention so far has focused on the 1 percentage point increase in the state income tax for individuals making more than \$225,000 and for couples making more than \$300,000 a year. That's about 30,400 of the 2.8 million income tax filers in Wisconsin, or a little more than 1 percent.

For those individuals and families, their highest tax rate would rise from 6.75 percent to 7.75 percent, raising \$291 million over two years. That would put Wisconsin in a tie for the 11th highest state rate in the top bracket, up from 16th now, according to figures from the Federation of Tax Administrators.

That would include people like David Locke, the long-time chairman and chief executive officer of McFarland State Bank, who expects to be affected by both the capital gains and the income tax changes. Locke said the possible tax increase would be one factor among many in deciding where he might one day retire.

"That would obviously be in the minus column," Locke said.

Julie Bogle, lawyer and tax manager at accounting firm Smith & Gesteland, said many local owners of small businesses such as electricians and manufacturers could be affected by the proposal. Bogle said those business owners may report income above \$300,000 but may not actually be taking that cash out of their businesses because they are reinvesting it in new equipment or other costs that can not be totally expensed immediately.

But Doyle said that the alternatives to the income tax would have been unacceptable cuts to schools and health care programs or a sales tax increase that would have hit working and middle-class families.

"It falls pretty hard on somebody who's really struggling right now," Doyle told the Wisconsin State Journal editorial board in deciding why he rejected a sales tax increase.

In spite of the change, Andy Reschovsky, a UW-Madison economist, said the state's income tax will continue to fall heavily on the working and middle classes because the existing brackets applying to them were not being changed.