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On the
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Economy

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The Distribution of Income and Income Taxes in Wisconsin

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Overview

The Wisconsin Department of Revenue has recently released some summary statistics from Wisconsin state income tax returns, covering the years 2014-2019. These data provide insight on the distribution of income and income taxes in the state. In particular, I find that:

1. Reported incomes in Wisconsin have grown across the income distribution from 2014-2019, but the increases have been largest at the low end of the distribution.
2. The state's income tax is progressive, with a large share of taxes paid by the highest income groups. The degree of progressivity has remained relatively constant since 2014.

Income Distribution

Considering income first, the data from the Department of Revenue reports income thresholds for different quantiles of the distribution, total income in the quantile, and the counts of tax units within the quantile. Note that all of this data is for tax filing units: single individuals, married couples filing jointly, married couples filing separately, single dependents, and heads of household. Thus it does not quite match up with other data sources on individual incomes (as married couples filing jointly are grouped together) or households (as married couples filing separately and filing dependents are different units). The quantiles reported are for the bottom 20%, 20-40%, 60-80%, 80-95%, and the top 1%. For income levels, I converted all data to real terms (in 2019 dollars) using the PCE deflator.

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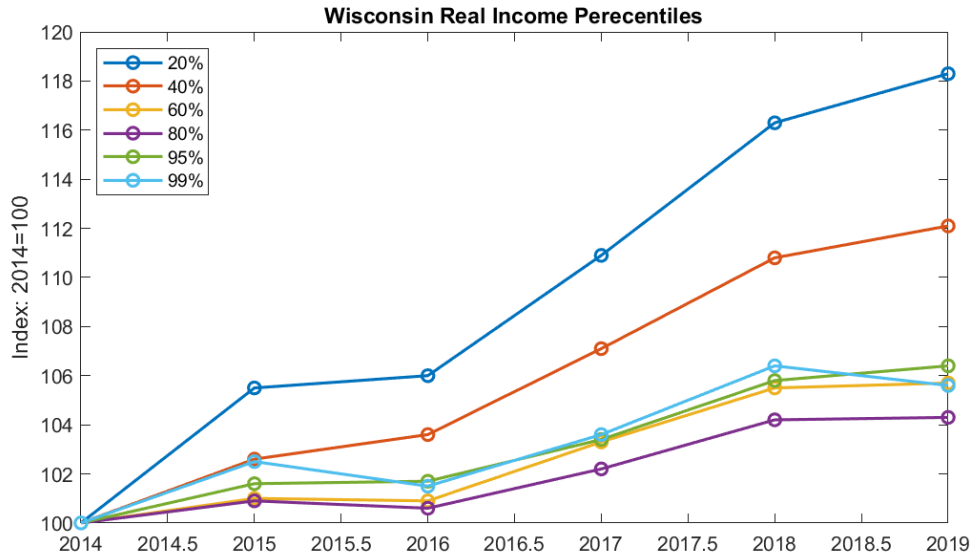


Figure 1: Real growth at different percentiles of the distribution of reported income from Wisconsin state tax returns.

Figure 1 shows the evolution of the different income percentiles in Wisconsin. We see clearly that, according to this data, since 2014 real incomes in Wisconsin have grown fastest at low end. In particular, income at the 20th percentile has grown 18.3% and the 40th percentile has increased 12.3%, while the 99th percentile has increased 5.6%. Specifically, in 2019, the 20th percentile income in Wisconsin was \$9,060, up from \$7,659 in 2014. The 99th percentile was \$384,470, up from \$364,031 in 2014. Interestingly, the cumulative growth rates for the 60th, 95th, and 99th percentiles were all very similar, around 6%. Income growth at the 80th percentile was slightly lower, at 4.3%.

It's important to recall that these data are repeated cross-sections, so do not speak directly to the evolution of individual incomes, as people may have moved around in this distribution over time. Nonetheless, the data does suggest that the long economic expansion, which continued throughout the 2014-2019 period shown, brought income gains across the distribution, with especially strong growth among lower incomes.

Tax Distribution and Progressivity

Wisconsin has a progressive income tax system, with marginal tax rates which in 2019 increased from 3.86% on the first \$11,760 of taxable income up to 7.65% on income over \$258,950. After accounting for deductions and credits, the income tax system as a whole is strongly progressive, with higher income groups paying a larger share of their incomes in taxes and also accounting for a disproportionate share of all taxes paid.

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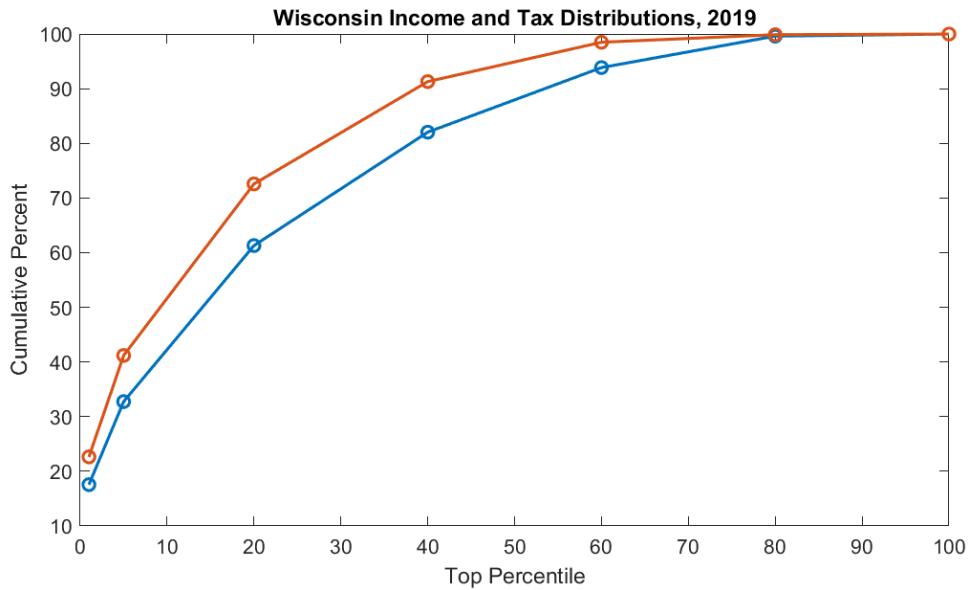


Figure 2: Cumulative distribution of income and income taxes in Wisconsin, 2019.

Figure 2 illustrates the distributions of incomes and taxes in 2019. In particular, the figure shows the cumulative percent of income and income taxes paid by different percentiles of the distribution, starting from the highest incomes. For example, the top 1% (with incomes more than \$384,470) earned 17.5% of all reported income and paid 22.6% of all income taxes, at a 5.6% average effective tax rate. The top 5% (with incomes over \$169,620) earned 32.7% of income and paid 41.2% of taxes, at a 5.4% average effective tax rate. By contrast, the bottom 40% of filers (with incomes less than \$26,600) earned 6.1% of all reported income and paid 1.5% of state income taxes, at a 1.1% average effective tax rate.

Even though there have been some changes to the tax system over time, the degree of progressivity has remained relatively stable since 2014. In 2014, the top 5% earned 32.6% of income and paid 42.0% of taxes at a 5.6% rate, while the bottom 40% of filers earned 5.4% of all reported income and paid 1.1% of state income taxes, at a 0.9% average effective tax rate.