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FOR IMMEDIATE RELEASE

Proposed plan would eliminate state income tax and increase state sales tax in Wisconsin

MADISON, Wisconsin, December 16, 2021 – Noah Williams, the Curt and Sue Culver Professor of Economics at the University of Wisconsin-Madison, and the Director of the Center for Research on the Wisconsin Economy (CROWE), releases a fundamental tax reform plan that could substantially improve economic outcomes in the state of Wisconsin.

Williams' tax reform plan proposes eliminating the Wisconsin state income tax, while increasing the state general sales tax to cover some of the reduction in tax revenue. His research shows that doing so would lead to increases in output, employment, consumption, and after-tax income. "At a time when the state faces historic labor shortages and record budget surpluses, this plan represents a bold step forward," says Williams. "Fundamentally changing the tax code would revitalize the Wisconsin economy, and draw workers and businesses to the state."

Wisconsin has the oldest state income tax in the United States, and the state government currently relies heavily on income tax revenue. However, according to Williams' report Fundamental State Tax Reform: Eliminating the Income Tax in Wisconsin, the state income tax is inefficient, not competitive and a distortionary tax on most small businesses. By contrast, sales taxes in Wisconsin are relatively low, with a combined state and local rate which is the third lowest among states with a sales tax.

"While official state revenue estimates include no behavioral response to taxation, a goal of fundamental tax reform is to change incentives," says Williams. "To better estimate the impact, I develop a model that incorporates the responses of workers, consumers, and businesses to the tax reform. I find that the tax reform is strongly pro-growth."

Williams estimates that eliminating the state income tax and increasing the sales tax to 8% would:

- Lead to an average net tax cut of roughly $1,700 per household, including both the income tax reduction and the sales tax increase.
- Increase state output by roughly 1 percentage point per year for each of the first five years, and a total long-run output gain of 7.9%. The Wisconsin economy would be about $28 billion larger after the reform than otherwise.

- Increase employment by 6.9%, or about 175,000 jobs, in the long run, with most of the gains coming in the first five years. The employment gains would be driven by labor supply, with increased hours and participation of residents, as well as in-migration.
- Increase after-tax income by about 9.4%, which would fuel an increase in consumer spending of about 7.2%, even after facing a higher sales tax.
- Lead to a long-run reduction of 12.6% of state tax revenue. This is roughly half the revenue loss that would be estimated without considering behavioral or dynamic impacts. The first state budget would see a revenue reduction of about $3.5 billion relative to current policy. For several years after that point, tax revenue would grow faster under the reform than under current policy.

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About CROWE
CROWE, established in 2017, supports and disseminates market-based economic policy research, with a particular focus on the Wisconsin economy and state-level economic policy issues. In a short time, CROWE has become an integral part of the University of Wisconsin-Madison campus and the broader business and policy community in the state. Work at CROWE spans three main areas: research, student engagement, and public outreach.

For more information on CROWE, visit crowe.wisc.edu

To download the report **Fundamental State Tax Reform: Eliminating the Income Tax in Wisconsin**, visit go.wisc.edu/statetaxreform