



Marginal Income Tax Rates in Wisconsin*

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Executive Summary

- Statutory income tax rates in Wisconsin are higher than in most other states. Wisconsin's statutory rate for the bottom-income bracket is the 19th highest among all states, and the statutory rate for the top-income bracket is the 9th highest. The tax system has become more progressive as well: the difference between the top and bottom statutory rates has more than doubled since 2000.
- A commonly used measure is the average tax rate, which is the ratio of taxes paid over income received during a year. A more relevant measure for policy analysis, and to predict the response to changes in statutory tax rates, is the effective marginal tax rate. The effective marginal tax rate measures the tax rate on an additional dollar of income given the circumstances of the household (which impact exemptions, deductions and tax credits).
- We calculate the effective marginal tax rates faced by Wisconsin households using data from the U.S. Census Bureau. These effective marginal tax rates depend on filing status, income level and many other household characteristics.
- We find that Wisconsin's effective marginal tax rate is the 15th highest among all states, and it is above the median of the 50 states for nearly all groups. For married couples filing jointly where both spouses are above 65, Wisconsin ranks 9th highest among all states. For single filers below 65, Wisconsin ranks 17th highest in the United States.
- Wisconsin's income tax rates remain uncompetitively high. A complete assessment will require an analysis of the trade-off between the benefit to the taxpayer from government services (some forms of government spending have a greater impact than others) and the benefit to Wisconsin households from tax cuts. In a subsequent report, we will present an analysis of this trade-off.

Wisconsin's statutory individual income tax rates are high and progressive. As shown in table 1, there are four brackets for taxable income in 2024, where the statutory marginal tax rate (MTR) increases from 3.50% to 7.65%. The tax rate structure is cumulative, so that each tax rate applies only to income that falls within the corresponding bracket. A taxpayer with income exceeding the threshold for the top bracket would have income subject to each of the four tax rates. According to data from the Tax Foundation (2024), Wisconsin's statutory rate for the bottom-income bracket is the 19th highest among all states, and its statutory rate for the top-income bracket is the 9th highest. The tax structure has become more progressive as well: The difference between the top and bottom statutory rates has more than doubled from 2.03% (6.65%-4.73%) in 2000 to 4.15% (7.65%-3.50%) in 2024.

Table 1: Wisconsin's Individual Income Tax Rates and Brackets: 2024

Statutory MTR (%)	Taxable income brackets (\$)		
	Single	Married jointly	Married separately
3.50	Less than 14,320	Less than 19,090	Less than 9,550
4.40	14,430 to 28,640	19,090 to 38,190	9,550 to 19,090
5.30	28,640 to 315,310	38,190 to 420,420	19,090 to 210,210
7.65	315,310 or more	420,420 or more	210,210 or more

The statutory MTR is different from the effective MTR, defined as the actual tax rate on the last dollar earned by a household. The statutory MTR is based on taxable income, which is different from gross income due to various exemptions and deductions. To be more precise, the base for Wisconsin individual income tax is Wisconsin adjusted gross income (WAGI), which is gross income adjusted for income and expenses exempt from the state's individual income tax. Taxable income is determined by subtracting standard deductions and personal exemptions from WAGI. Taxable income is multiplied by the applicable statutory rates to arrive at gross tax liability. Finally, net tax liability is determined by subtracting nonrefundable and refundable tax credits from gross tax liability. As a result of the exemptions, deductions and tax credits, the effective MTR faced by a household, i.e, the derivative/slope of net tax liability with respect to gross income, is often different from the statutory MTR, which is the derivative/slope of gross tax liability with respect to taxable income. Wisconsin has a sliding scale standard deduction that decreases at a rate of 19.778% for most middle-income households. For these households, each additional dollar of gross income reduces the standard deduction by 19.778 cents. Consequently, each additional dollar of gross income raises taxable income by 1.19778 dollars, so that the effective MTR is 19.778% higher than the statutory MTR.

We calculate the effective MTR for tax filers in Wisconsin and other states. As shown in table 2, in 2023, Wisconsin's effective MTR ranges from less than 2% for single filers younger than 65 with income below \$25,000 to 5.66% for heads of household. More importantly, **Wisconsin's effective MTR is above the median of the 50 states for almost all groups.** In particular, Wisconsin's effective MTR for married joint filers where both spouses are 65 years old or above is the 9th highest among all states. The small group of married joint filers where one spouse is below 65 and the other is 65 or older, which accounts for 2.54% of all tax filers in Wisconsin in 2023, is the only group for which Wisconsin's ranking is below the median. Overall, Wisconsin's effective MTR is 4.87% and the 15th highest among all states.

Table 2: Wisconsin's Effective Marginal Tax Rate: 2023

Filing status	Share (%)	Effective MTR (%)	Rank
Married joint, both 65+	8.80	4.64	9
Married joint, one below 65 and one 65+	2.54	3.63	31
Married joint, both below 65	28.59	5.49	17
Income: below 80K	5.74	5.47	12
Income: 80K to 150K	11.94	5.33	20
Income: above 150K	10.91	5.12	22
Single: 65+	10.50	4.12	22
Single: below 65	40.80	5.17	17
Income: below 25K	11.28	1.94	26
Income: 25K to 60K	18.47	5.45	14
Income: above 60K	11.05	5.30	17
Head of household	8.77	5.66	16
Overall	100	4.87	15

The effective MTR does not always increase with household income. Table 2 shows that, among married joint filers where both spouses are below 65, the effective MTR decreases from 5.47% for those filers with income below \$80,000 to 5.12% for those with income above \$150,000. For single filers below 65, the effective MTR is higher for those with income between \$25,000 and \$60,000 than those with income above \$60,000 (5.45% vs 5.30%). In contrast, the statutory MTR shown in table 1 is never decreasing in income. The difference is due to the exemptions, deductions and tax credits mentioned above, with the sliding scale standard deduction being a main reason why the effective MTR for middle-income households is higher than it is for high-income households.

Since the effective MTR is what matters for household behavior, Wisconsin's high effective MTR could have a negative effect on labor supply and the overall economy. Reducing the effective MTR could raise Wisconsin's labor supply and state GDP and have a positive impact on its households, including middle-income households and the elderly.

Data and Analysis

We use data from the 2024 Annual Social and Economic Supplements (ASEC) to the Current Population Survey (CPS). Conducted monthly by the U.S. Census Bureau on behalf of the U.S. Bureau of Labor Statistics, CPS is the source of official Government statistics on employment and unemployment. ASEC is conducted annually in the months of February, March and April. In addition to the usually monthly labor force data, ASEC provides supplemental data on work experience, non-cash benefits, migration and income, including both total income and income components from the preceding year. Using the information, and data from other sources such as the Internal Revenue Service, the Census Bureau constructs tax filing units from ASEC respondents and estimates the gross income and tax liability for each unit (Lin, 2022).

Figure 1 plots the (adjusted) gross income and (net) state tax for all tax filers in Wisconsin. To reduce the impact of extreme values, we focus on tax filers with gross income between \$5,000 and \$300,000 in 2023 throughout this paper. The slope of the fitted line is 4.87%, which is our measure of the effective MTR for all tax filers in Wisconsin in 2023.

We estimate the effective MTR using the same method for each of the 50 states, and plot the resulting estimates in figure 2. Wisconsin's effective MTR is the 15th highest among all states. On the other hand, the estimate is zero for states with no income tax.

The rest of the figures are for the six types of tax filers reported in table 2:

1. Married joint filers, where both spouses are above 65: figure 3 for Wisconsin and figure 4 for all states
2. Married joint filers, one below 65 and one above: figure 5 for Wisconsin and figure 6 for all states
3. Married joint filers, both below 65: figure 7 for Wisconsin and figure 8 for all states
4. Single filers above 65: figure 9 for Wisconsin and figure 10 for all states
5. Single filers below 65: figure 11 for Wisconsin and figure 12 for all states
6. Head of household: figure 13 for Wisconsin and figure 14 for all states

For 3 and 5, where the number of observations is large, we also break each group into three subgroups based on income. The results are reported in table 2, but the corresponding figures are omitted for brevity.

As mentioned above, Wisconsin's effective MTR is above the median of the 50 states for almost all groups. Reducing the effective MTR could have a positive impact on Wisconsin's economy and its households, including middle-income households and the elderly.

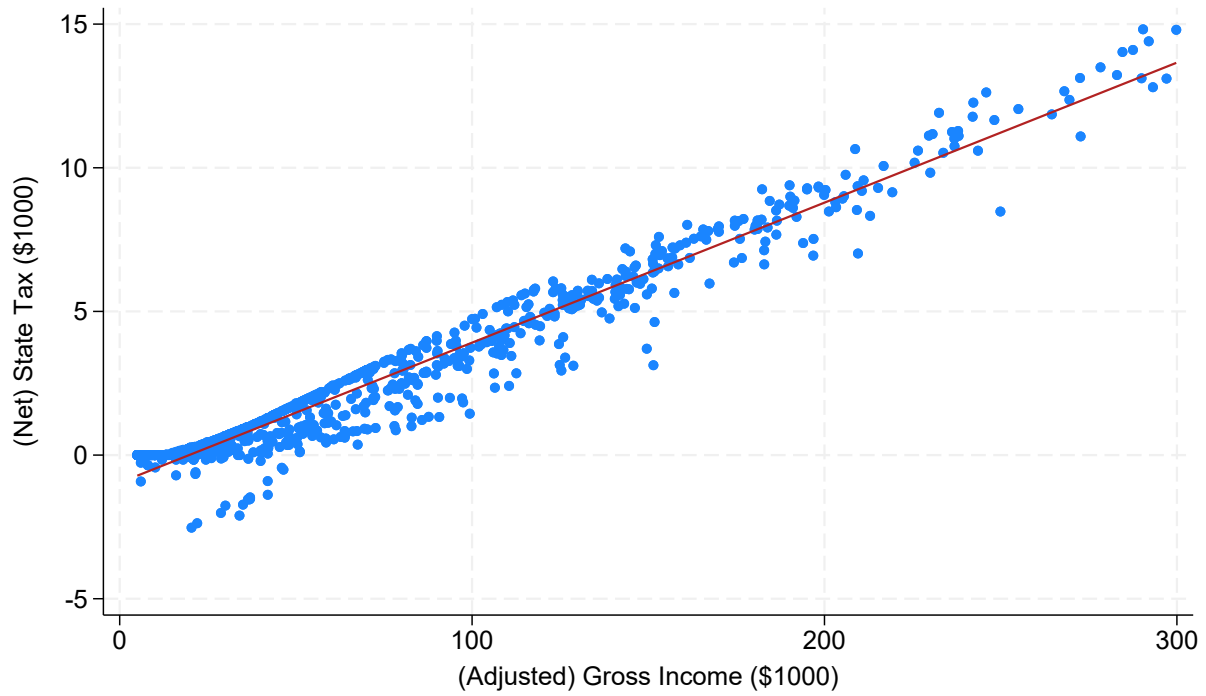


Figure 1: All Tax Filers in Wisconsin

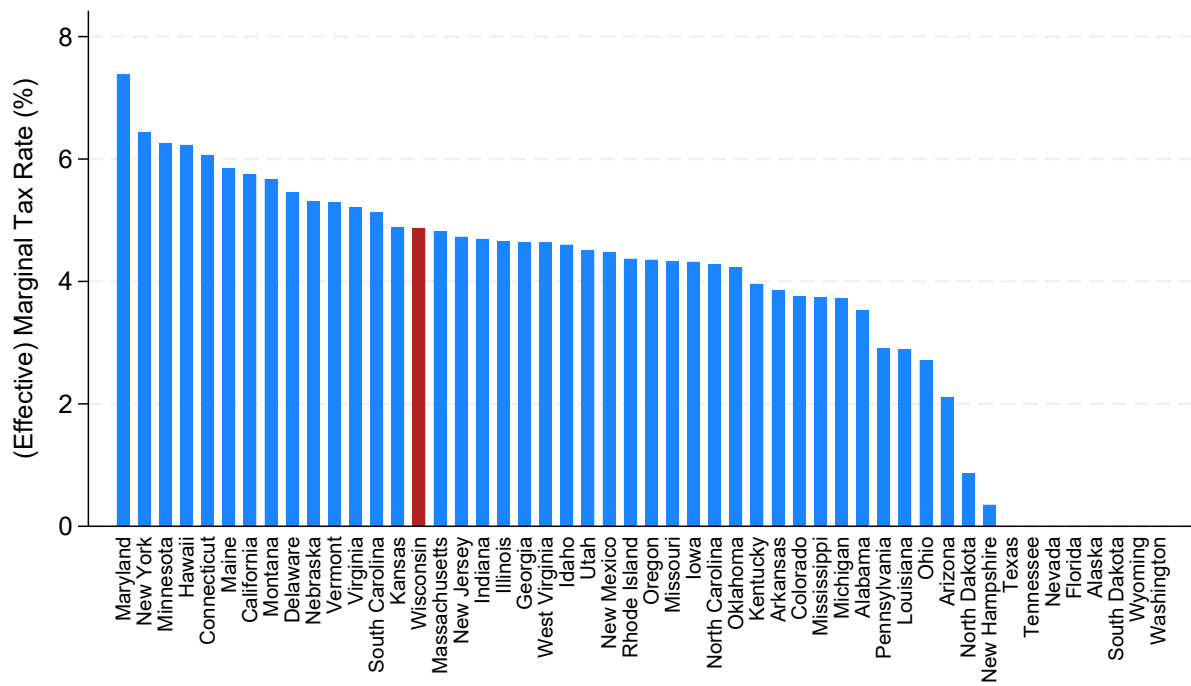


Figure 2: Effective MTR: All Tax Filers

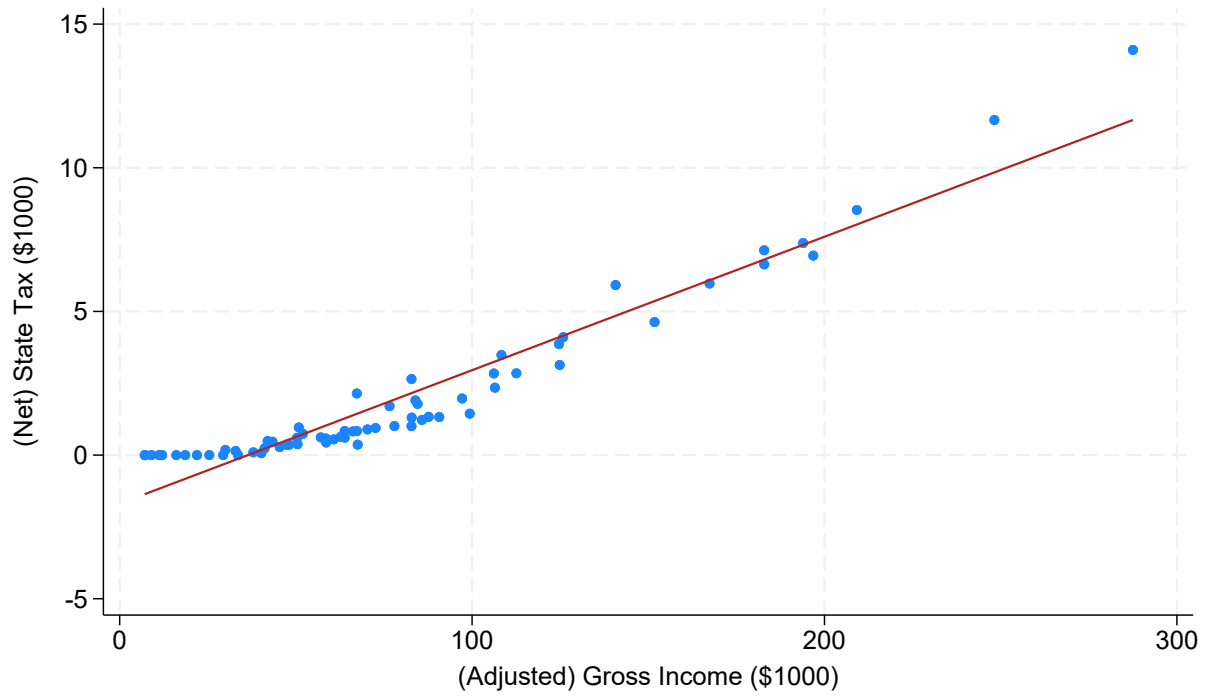


Figure 3: Married Joint Filers in Wisconsin: Both 65 Years Old or Older

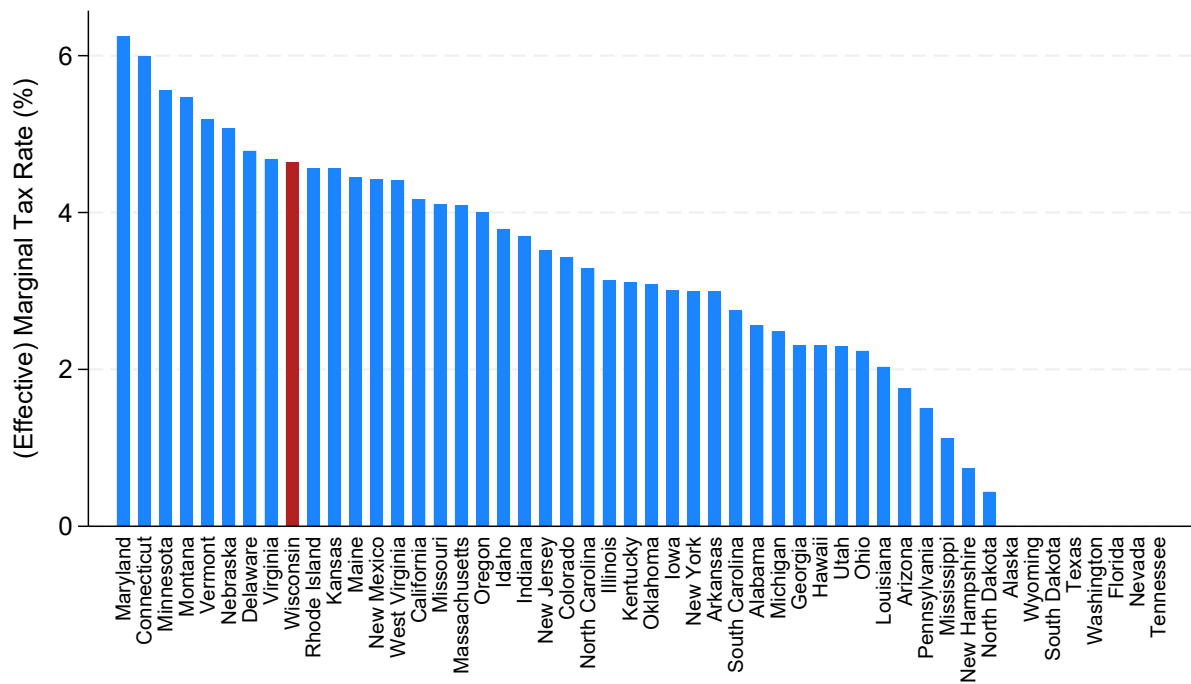


Figure 4: Effective MTR: Married Joint Filers, Both 65 Years Old or Older

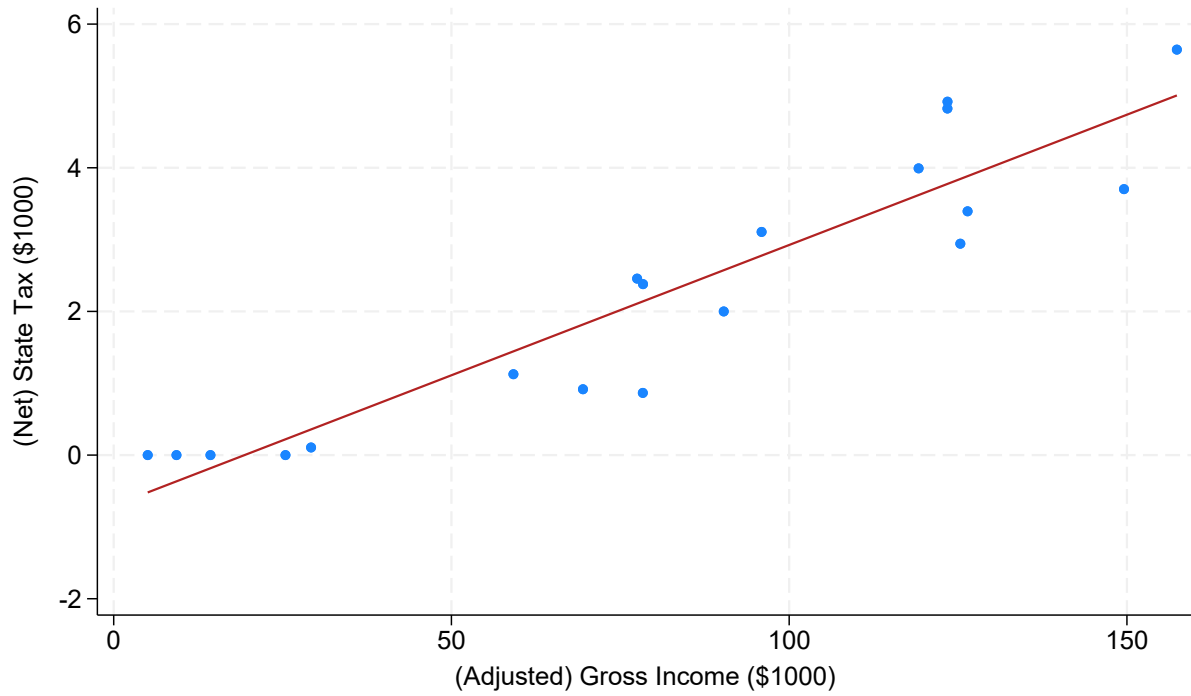


Figure 5: Married Joint Filers in Wisconsin: One Below 65 and One Above

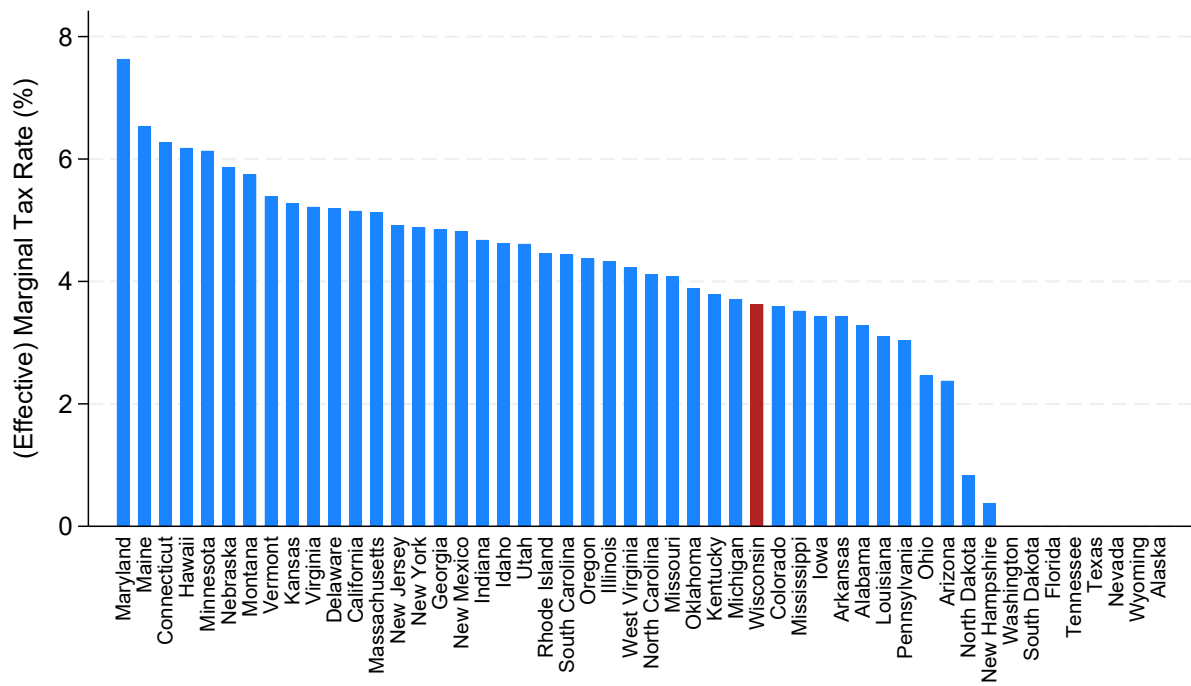


Figure 6: Effective MTR: Married Joint Filers, One Below 65 and One Above

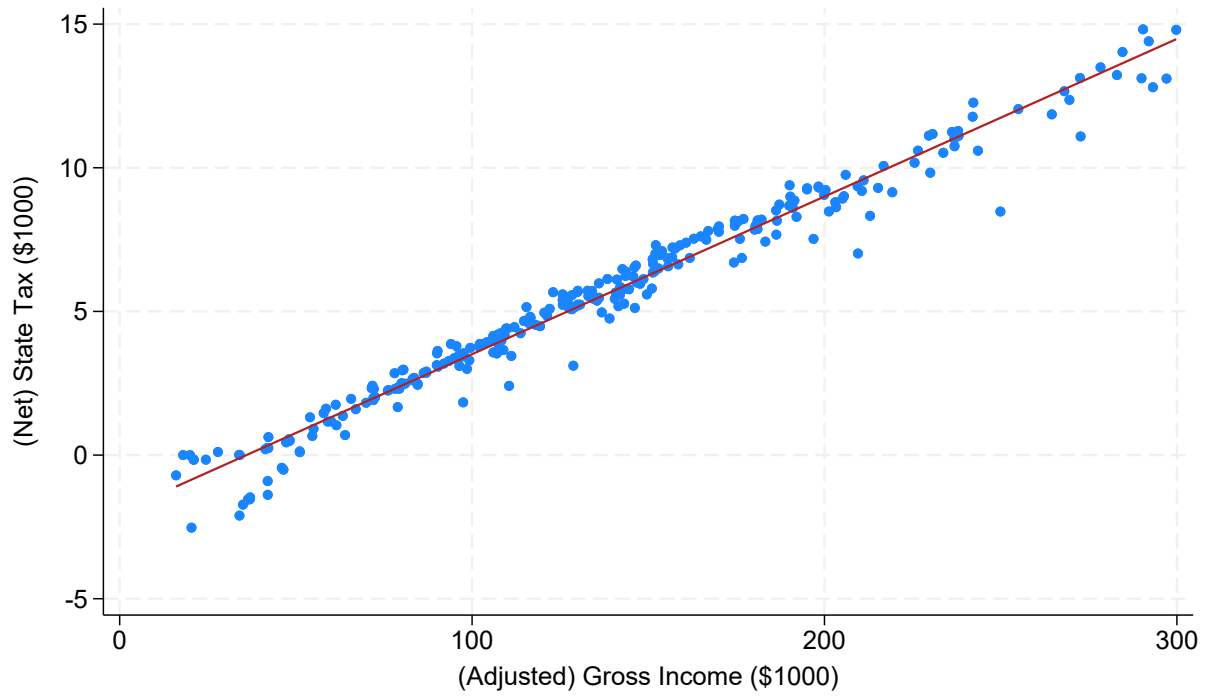


Figure 7: Married Joint Filers in Wisconsin: Both Below 65

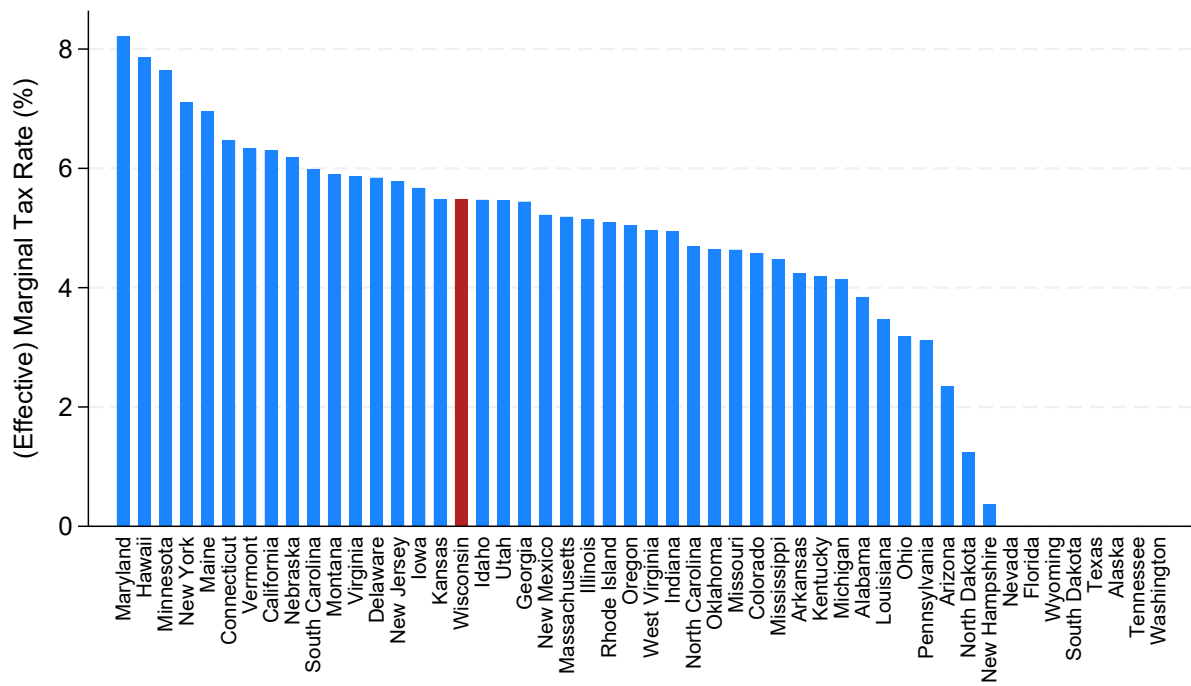


Figure 8: Effective MTR: Married Joint Filers, Both Below 65

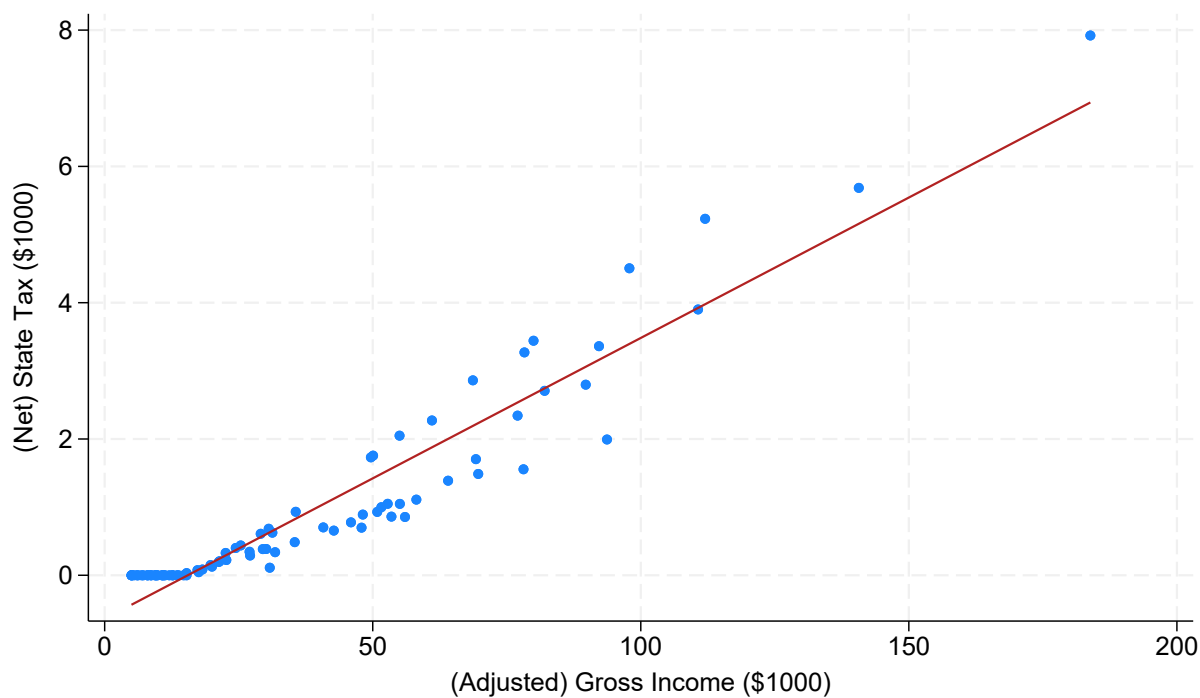


Figure 9: Single Filers in Wisconsin: Above 65

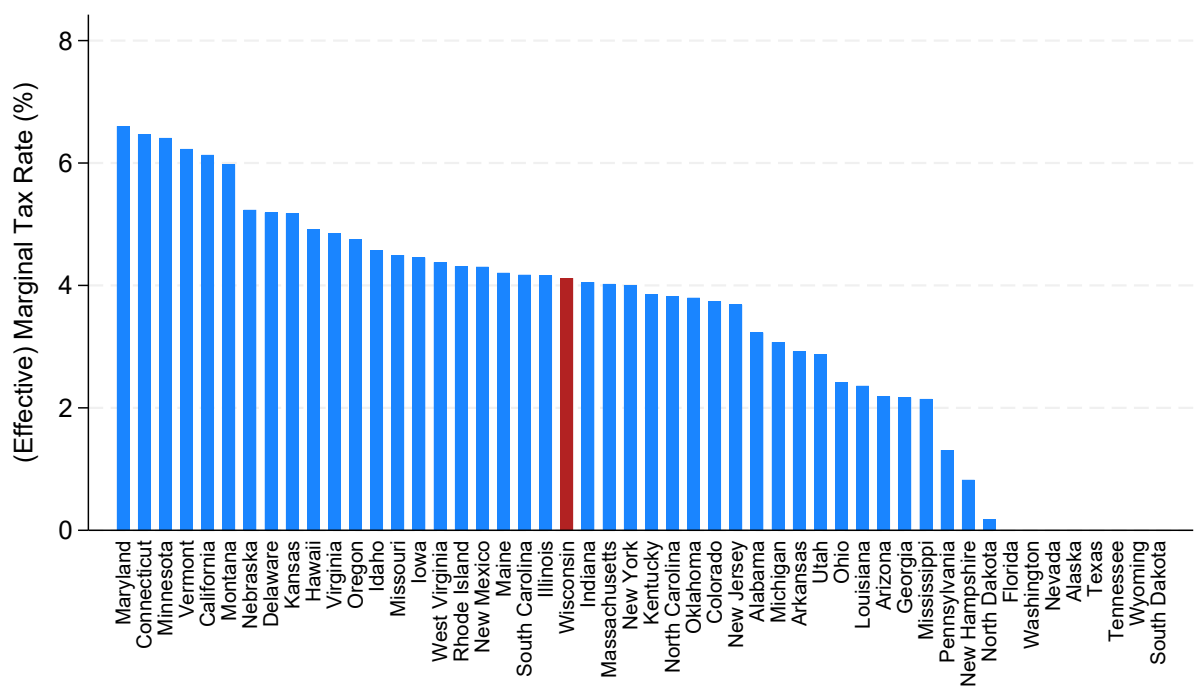


Figure 10: Effective MTR: Single Filers Above 65

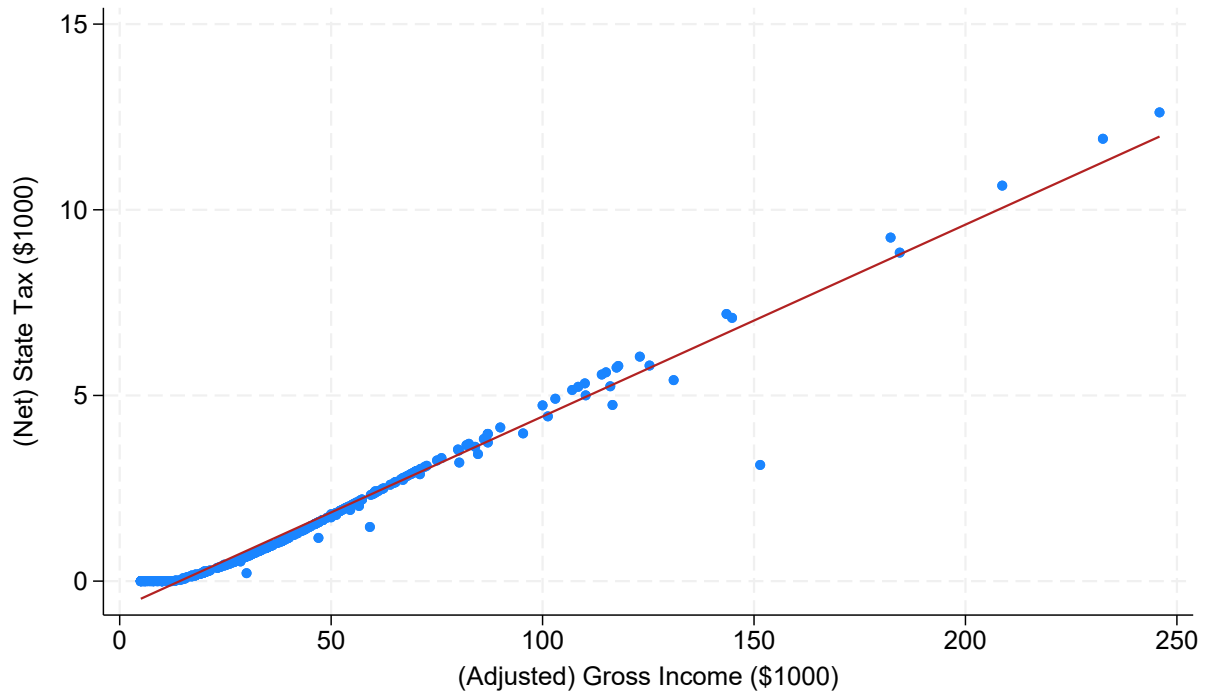


Figure 11: Single Filers in Wisconsin: Below 65

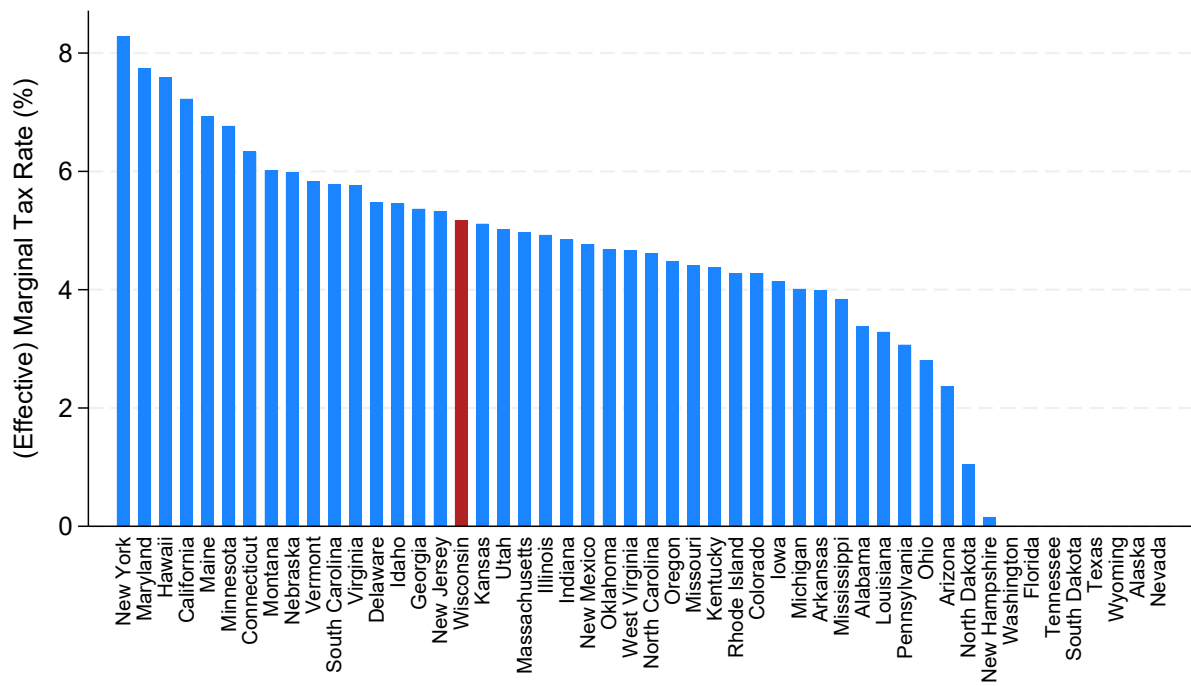


Figure 12: Effective MTR: Single Filers Below 65

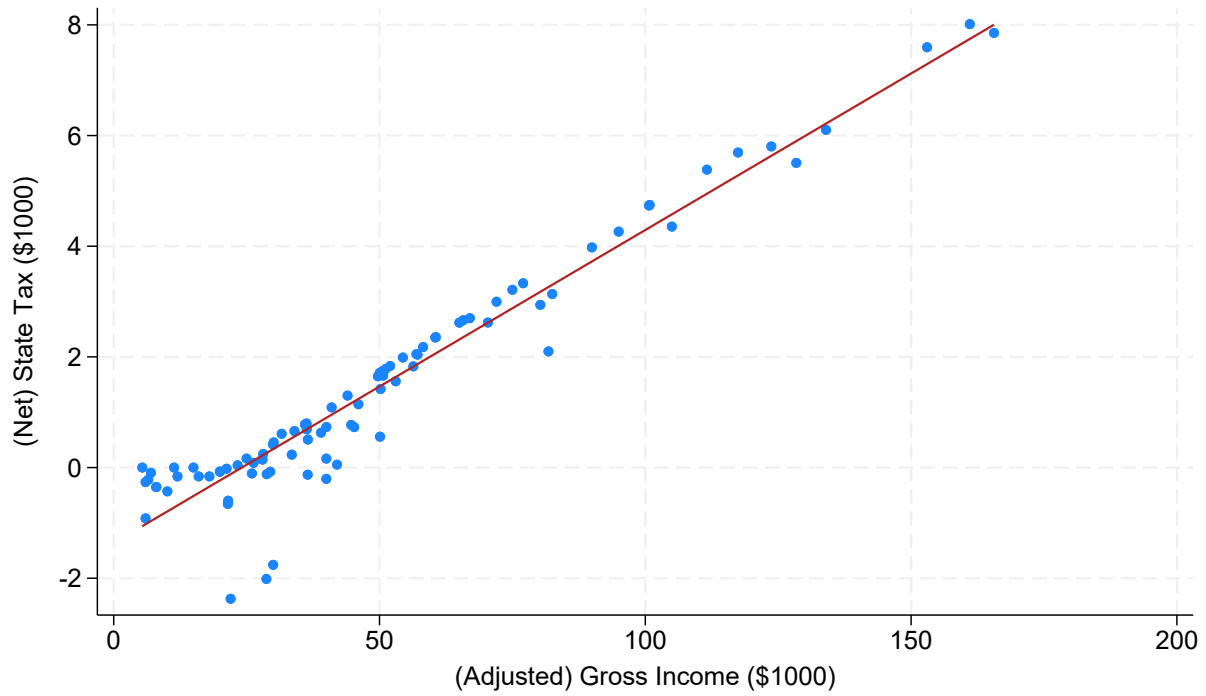


Figure 13: Head of Household in Wisconsin

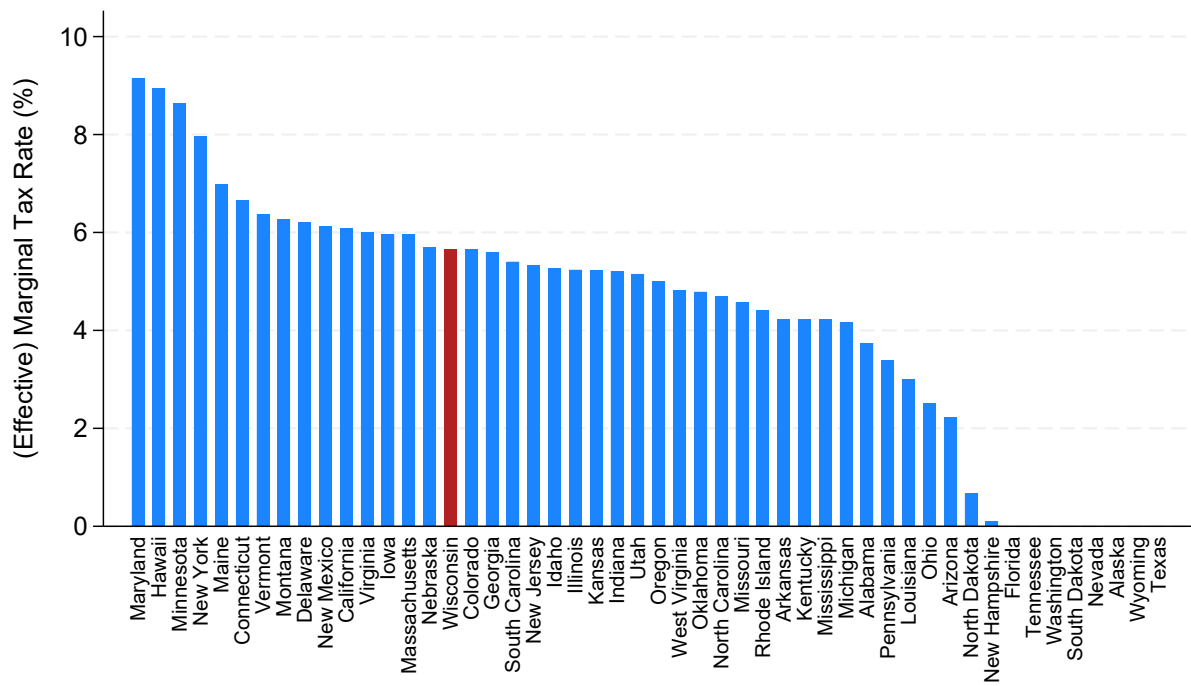


Figure 14: Effective MTR: Head of Household

References

Lin, Daniel, “Methods and assumptions of the cps asec tax model,” SEHSD Working Paper FY-2022-18, US Census Bureau 2022.

Tax Foundation, “State Individual Income Tax Rates and Brackets, 2024,” 2024. <https://taxfoundation.org/data/all/state/state-income-tax-rates-2024/> (accessed on November 27, 2024).