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WISCONSIN TAX POLICY WITHIN A FEDERAL SYSTEM

JERE D. MCGAFFEY*

Wisconsin, as part of a federal system, faces certain limitations and opportunities compared to a separate sovereign government. Within the federal system, each of the states is responsible for raising revenue locally to carry out state and local governmental functions. The federal system, however, places limits on the way this revenue is raised. The United States Constitution requires that the tax system comply with due process¹ and not unduly burden interstate commerce.² Moreover, because Congress has power to regulate commerce, it can regulate the imposition of state taxes on interstate commerce.³

Although states are free, within these limitations, to develop their own tax policies, there are practical advantages in conforming any state income tax to the federal income tax. Such conformity eases the burden of compliance by taxpayers, is likely to result in fewer filing errors, and reduces the cost of administration by the state. States also are affected by the tax policies of other states because of the ability of individuals, goods, and capital to move freely within the federal system. This characteristic permits individuals and capital to avoid a state's tax by leaving the jurisdiction.

The balanced budget requirement also affects state and federal conformity. The Wisconsin Constitution requires a balanced budget,⁴ whereas the federal government is under no such constraint. Most states have similar balanced budget requirements. Most states ran surpluses and established "rainy-day" funds⁵ in the prosperous late 1990s. These funds result in a dampening of state expenditures when revenues are high, while allowing

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1. U.S. CONST. amend. XIV, § 1.

2. U.S. CONST. art. I, § 8.

3. See, e.g., Pub. Law No. 86-272, 15 U.S.C.A. §§ 381–384 (prohibiting a state from collecting corporate net income tax where corporation's only contact with the state is the solicitation to sell personal property); Internet Tax Freedom Act Title XI §§ 1101–1104 (1998) (preventing discriminatory taxes on Internet-based transactions).

4. WIS. CONST. art. VIII, § 5.

5. See Adam Carasso & C. Eugene Steuerle, *State and Local Receipts and Business Cycles*, 102 TAX NOTES 1147 (2004).

states to maintain the level of expenditures when there is a reduction in revenues.

The state requirement of a balanced budget can conflict with the desire to have conformity of the state income tax to the federal income tax. The federal government generally intends to use fiscal policy to stimulate full employment.⁶ During downturns in the economy, the federal government may reduce taxes to stimulate the economy. The policy of state and federal conformity and the federal policy of economic stimulation can lead to inconsistencies during economic downturns.

I. CONFORMITY OF WISCONSIN AND FEDERAL TAX POLICY

Wisconsin individual income tax conforms to the federal income tax by starting with federal adjusted gross income and then making certain modifications.⁷ Wisconsin tax law calls for deducting the standard deduction and exemptions,⁸ applying the tax rates,⁹ and deducting certain credits.¹⁰ The Wisconsin corporate income tax starts with gross income as computed under the federal Internal Revenue Code and then makes certain modifications.¹¹ In both the individual and corporate income tax, Wisconsin adopts the Internal Revenue Code each year with certain modifications.¹²

Because conformity is tied principally to the computation of income, if the federal government during an economic downturn makes adjustments in tax rates, provides additional credits (such as an investment credit), or changes the treatment of itemized deductions, it will not affect conformity with the Wisconsin income tax. However, if the federal government changes depreciation rates or expensing of new capital additions,¹³ such changes will have an effect on the definition of income to which the Wisconsin tax applies.

Wisconsin will then have to determine whether to adopt those federal changes. Although the question of adopting federal changes is one that must be made in any year, it is particularly troublesome in a year of economic

6. See Employment Act of 1946, Pub. L. No. 304, 60 Stat. 23 (1946). However, the federal government does not seem able to run a surplus in good economic times to be utilized in recessions.

7. WIS. STAT. § 71.01(13) (2003). Twenty-six states begin state tax calculations with federal adjusted gross income, 10 states start with federal taxable income, and 3 states previously started with federal tax liability. Harley Duncan & Ronald Alt, *State Conformity to Federal Income Tax Provisions*, 2004 May Meeting Materials of the Section of Taxation of the ABA (on file with author).

8. WIS. STAT. § 71.01(16) (2003).

9. WIS. STAT. § 71.06 (2003).

10. WIS. STAT. § 71.07 (2003).

11. WIS. STAT. § 71.26(2) (2003).

12. WIS. STAT. §§ 71.01(6), 71.22(4m) (2003).

13. See I.R.C. § 179 (1986).

decline. The federal government may be making such changes to stimulate the economy and, thus, reduce federal revenue. The state, in time of economic decline, needs to raise revenue (or reduce expenditures) in order to meet balanced budget requirements, and the federal changes are an additional burden. Failure to adopt the federal changes adds to complication and creates administrative problems.

This issue is particularly acute when the federal change affects depreciation schedules by either expensing or increasing depreciation. Prior to the enactment in March 2002 of "bonus depreciation,"¹⁴ nearly all states conformed to federal depreciation rules. Conformity with "bonus depreciation" would have reduced state tax receipts by an estimated \$15 billion dollars, and thus only Florida and West Virginia incorporated the bonus system into state law.¹⁵ If Wisconsin depreciation does not conform to federal depreciation, the effect is not just a one year phenomenon but a continuing adjustment for the depreciable life of the property. Thus, from a simplicity and an administrative point of view, it is highly desirable to conform depreciation schedules.

Modification from the federal definition of income should be adopted with great reluctance because of the complexity that such changes add to the tax computation. They are likely to create errors in filing and to place an increased burden on both the taxpayer and the tax administrator. Using such items to stimulate a particular activity is likely to be of little effect, considering the state tax rate as compared to the federal tax rate. Credits may be used, which would have greater stimulative effect, but if they are used in lieu of a deduction allowed federally,¹⁶ it will create administrative problems if the deduction is also denied. Use of credits, particularly at the lower income levels, may result in the intended group not taking advantage of them or forcing them to go to paid preparers.

Wisconsin does not permit a deduction for federal itemized deduction but provides a credit for itemized deduction, except for certain items, including taxes.¹⁷ The extent to which these definitions differ from the federal should be reconsidered to see if they are worth the administrative burden. The shift from a deduction to a credit was made at a time when there was much consideration of lower rates and broadening the tax base. The action was

14. See Job Creation and Worker Assistance Act of 2002, Pub. L. No. 107-147, 116 Stat. 21 (2002).

15. See Duncan & Alt, *supra* note 7.

16. See WIS. STAT. § 71.05(a)(15) (2003).

17. WIS. STAT. § 71.07(5) (2003).

taken prior to the enactment of the 1986 Code, which had a similar intent.¹⁸ Perhaps it would be better to utilize the approach taken in the federal law.¹⁹

No credit or deduction is allowed for state income taxes. Historically, the state did allow a deduction for state income tax.²⁰ If one is taxing income on the basis of ability to pay, the taxes paid do reduce ability to pay. However, it is anomalous to put the state tax in the very computation that determines the state tax, and the only reason to do so is for administrative ease by conforming to the federal income tax. Theoretically, one could argue that the federal income tax should be deducted, as it reduces the ability to pay the state income tax.

Property taxes are not deductible in Wisconsin; however, a credit is allowed for the first \$2500 of property tax. Twenty percent of rent is considered property tax for this purpose.²¹ This provision does not provide any relief for property tax above \$2500, although a higher property tax payment certainly affects one's ability to pay state income tax. This policy is not theoretically sound and can be justified only on a theory that any increase in benefit for paying higher property tax would have to be offset by a higher rate of tax at the top brackets.²² It may well be desirable to make the top bracket appear to have a lower tax rate than it effectively does, because top bracket taxpayers may consider these appearances in making decisions as to whether to reside in the state. By allowing part of rent to be considered property tax, increased equity may be provided. Rather than providing the rent credit, a higher standard deduction may be simpler.

The balanced budget requirement should be considered when the degree of progressivity is considered. Higher income may be less stable and decline more in recessionary times. This is caused by compensation that relates to

18. See Wis. Act 29, 1985 Wis. Laws.

19. The use of a credit rather than a deduction gives no advantage to persons in the higher income tax brackets. Whether differences between the brackets are significant enough to justify utilizing a credit rather than a deduction is debatable. The credit originally was at the bottom tax bracket. See Wis. Act 29, 1985 Wis. Laws §§ 1320, 1329. One approach could be that the deductions should be used first against the bottom bracket and, to the extent they exceed that amount, they should be used at the next higher bracket and so on. Although such a method may be theoretically better, the complexity resulting probably precludes any such change. The other alternative is to give the credit at the highest tax rate, thus benefiting those at lower brackets. Because many take the standard deduction, they would not have any benefit. On balance, it is probably more desirable to have the highest tax rate be lower than to increase the amount of the credit.

20. See WIS. STAT. § 71.02(f) (1983).

21. WIS. STAT. § 71.07(9) (2003).

22. The federal government similarly disallowed part of the itemized deductions rather than increase rates, although the effect was similar. However, the property tax paid is not directly proportional to income.

stock price, such as stock options, restricted stock, and sales of businesses. The sensitivity of state tax revenues to the economy was shown in California, which has a progressive state income tax and had a number of individuals with extremely high income due to the dot.com bubble, as well as other factors. In 2000, nearly 50% of the revenue from the income tax came from the top 1% of filers, compared with a historic amount from this group of 35%, and it fell in 2001 to 40%.²³ Consider the effect on the other 99%. It meant, if revenue was constant, that their share would increase from 50% to 60%, or a 20% increase in taxes. Think of how much more desirable it would have been if the collection above 35% from this group had been placed in a “rainy-day” fund. Although Wisconsin is unlikely to ever have such concentration of income from such a narrow group, it might be desirable to determine the amount of the rainy day fund by the extent that revenues from the top 1% or 5% of filers are above a historic percentage.

II. CAPITAL GAINS AND LOSSES

Capital gains on assets held more than one year qualify for a 60% exclusion under the Wisconsin income tax.²⁴ Regardless of whether the arguments that apply at the national level for a lower rate are applicable to the states, there is an important additional argument for a capital gain preference at the state level. Individuals incurring a large capital gain often have the ability to change residence prior to incurring such a gain and thus can avoid the tax. Taxing such a gain will cause the individual to leave the state prior to making the sale. This argument is, of course, not applicable to smaller capital gains and is not applicable to real estate.

Individuals selling their business or a large stock holding and incurring a substantial gain will often consider whether to change their residence. Because they are selling their business, they often will not have the required tie of their employment to keep them in Wisconsin.²⁵ Such individuals often will have a second home. In Wisconsin, many wealthy individuals have second homes in Florida, which does not impose an income tax. The

23. Phil Spilberg & Lori Alexander, *The California Budget Crisis: Factors Leading to the Current Budget Deficit and Discussions of Certain Proposed Solutions*, 56 NAT'L TAX. J. 555 (2003).

24. WIS. STAT. § 71.05(6)(b)(9) (2003).

25. This same issue arises with respect to Wisconsin inheritance and estate taxes. Such an argument was sufficient to cause the legislature to eliminate the Wisconsin inheritance tax and have an inheritance tax limited to the federal estate tax credit. Unfortunately, in order to fund part of the cost of federal estate tax relief, the federal credit is being phased out. See I.R.C. § 2011(2)(B) (1986). Wisconsin continued the estate tax to the extent of the prior federal credit. See WIS. STAT. § 72.01(11m) (2003). This may not only have the effect of causing individuals subject to such tax to move but also complicates the estate planning for those who stay.

individual selling a business may look forward to spending the winter months in Florida. By extending the stay and making various other changes,²⁶ residence may be changed and no state capital gain tax is imposed. These individuals are desirable residents of the state for the income taxes they pay, the charitable contributions they make, their civic leadership, and their possible investment in new businesses.

Whether a 60% exclusion is sufficient to keep them residents of Wisconsin depends on individual circumstances. Furthermore, the 60% exclusion benefits individuals who receive small capital gains and would not leave the state.

If the only objective is to retain individuals within the state, the capital gain benefit should be limited to large gains. This is unlikely to be politically acceptable. Requiring a long holding period may limit the number of smaller gains qualifying for the benefit and may better target the benefit on the sellers of businesses. Massachusetts has, in the past, based the amount of the tax on the length of the holding period and eliminated the tax entirely after 6 years. Whether 6 years is the right time period may be debated, but the concept of eliminating the tax after a number of years of holding would achieve the objective. The holding period schedule could be designed to raise the same amount of revenue as the 60% exclusion. One of the reasons the 60% exclusion was adopted, rather than a lengthy holding period and 100% exclusion, was that farmers had a substantial amount of capital gains on the sale of animals raised for breeding or similar purposes, which had a relatively short holding period.

Another argument for a capital gain preference is to provide a perception that the state favors entrepreneurs and to establish a talking point in comparison to other states.

Wisconsin limits the amount of capital loss that may reduce ordinary income to \$500 (rather than the federally allowed \$3000) and permits the unused portion to be carried forward.²⁷ This requires separate computation of the amount of carry forward for federal and Wisconsin purposes. Not conforming to the federal treatment and requiring adjustments in the carry forward create complexity and administrative problems not only for the year of the loss, but for all subsequent years of carry forwards. This is not the sole reason for requiring a separate schedule for capital gains and losses,²⁸ but one

26. These changes are reported on Wisconsin Department of Revenue Form I-827, Legal Residence (Domicile) Questionnaire. The Wisconsin Department of Revenue uses the questionnaire to determine whether certain types of income are taxable to Wisconsin.

27. WIS. STAT. § 71.05(10)(c) (2003).

28. The capital gains and losses are reported on Wisconsin Schedule WD.

wonders if the loss allowance were conformed to the federal rule, whether the adjustments to capital gains and losses could not be made on the basic form without a separate schedule.

III. SALES TAX PROBLEMS AND INTERSTATE COMMERCE

The states are limited in collecting sales tax by the requirement that the seller have some physical presence in the state.²⁹ Because the limitation is one based on the Commerce Clause, Congress could permit collection of sales tax on some different basis.

The current limitation on the collection of sales tax for catalogue and Internet sales may undermine the tax. Furthermore, local “brick and mortar” stores are placed at a disadvantage. There is no reason for the states to encourage sales by catalogue and Internet sales as opposed to local “brick and mortar” stores. These stores provide employment to state residents and often actively participate in the community.

I believe that the long-term solution to this problem is for the federal government to collect a national sales tax and remit it to the states, in exchange for the states not levying such a tax. The amount remitted could be based on population or on some measure of economic activity in the state. It is likely that, even though the rate might differ from that which the state would impose and the definition of “goods” taxed might differ as well, the states would receive increased revenues. Sellers in interstate commerce would likely save substantial administrative costs in not having to deal with multiple states and variations in the items subject to tax and the rates imposed.

In the alternative, only certain items could be taxed at the federal level and the remaining items could be available to be taxed at the state level. For example, the federal government could tax goods and let the states tax whatever services they desire. Another alternative would be for the federal government to tax only those goods that are sold in volume by catalogue or Internet, although it should be noted that the variety of goods sold by catalogues and the Internet keeps increasing.

My proposal may be too great a surrender of “sovereignty” by the states. However, it is hard to see what important state policies the states effectively can advance through a sales tax.

The Streamlined Sales Tax Project³⁰ may be the best solution that can be obtained. It provides for common definition, the same rate on all items subject to tax within a state or local jurisdiction, and notice of changes in rates

29. See *Quill Corp. v. North Dakota*, 504 U.S. 298 (1992).

30. See *The Lawmaker's Guide to the Streamlined Sales Tax Project 2003, The Year of Decision*, DELOITTE & TOUCHE CENTER FOR MULTISTATE TAXATION, U. WIS. MILW. (2003).

and methods of collection through certified service providers, relieving the sellers of the burden. These are giant steps forward. The difficulty in negotiating it shows the difficulty of obtaining state agreement in this area. If agreement can be reached, perhaps Congress can be convinced to permit the imposition of such a tax on all sales into a state, at least by retailers selling more than some minimum amount. As technology eases the burden of having different rates in different jurisdictions, perhaps this will be practical. It would be a major step forward, which perhaps would lead to further uniformity.

IV. STATE CORPORATE INCOME TAX

The state corporate income tax is providing a decreasing portion of Wisconsin revenues, declining from \$644 million in 1999–2000³¹ to \$503 million in 2001–2002, out of general purpose revenues of over \$10 billion.³² This decline shows the lack of stability of this revenue source.

The decline in revenue from the corporate income tax is due in part to lower profits, more business being conducted in pass-through entities,³³ lower corporate taxable income resulting from deduction upon exercise of nonqualified options, and increased tax planning. The federal corporate income tax has become a lower percent of Gross Domestic Product, but it has remained about the same percent of before-tax profits.³⁴ Thus, despite all of the talk at the federal level about corporate tax shelters, it is unclear whether they have had a major effect on revenues.

At the state level, there has been an increasing amount of tax planning by corporations. Although changes may be made to stem the revenue drain, corporations always have the ability to rearrange their affairs in a manner to minimize their tax burden. They do not have a residence the way an individual does, their income is derived from capital which is mobile, and more and more of their economic activity relates to intangibles.

The need to file in many states and the resulting state tax planning impose significant administrative costs on interstate corporations. I therefore believe that, just as with the sales tax, the use of the federal government as a collector

31. *State of Wisconsin 2000 Annual Fiscal Report, Budgetary Basis*, WIS. DEP'T OF ADMIN. 7 (2000), at <http://www.doa.state.wi.us/debf/cafr/fr00/2000wiafr.pdf>.

32. *State of Wisconsin 2002 Annual Fiscal Report, Budgetary Basis*, WIS. DEP'T OF ADMIN. 6 (2002), at <http://www.doa.state.wi.us/debf/cafr/fr02/2002wiafr.pdf>.

33. The ability to use limited liability companies has greatly increased this tendency. Whereas there are often taxes in converting an existing C-corporation to a pass-through entity, most new businesses are being organized as limited liability companies, unless they plan to be publicly-traded corporations.

34. Martin Sullivan, *Is the Corporate Tax Withering Away*, 101 TAX NOTES 8978 (2003).

would be desirable. If the federal corporate income tax increased by a few percentage points and that amount was rebated to the states in exchange for not levying a state corporate income tax, we eliminate a major administrative burden on both the corporations and the states.

Total corporate income tax collections for all states in 2001 was \$31.7 billion; in 2000, it was \$32.3 billion; and in 1999, it was \$30.7 billion.³⁵ Federal corporate income tax collections for the same periods were \$187 billion, \$236 billion, and \$216 billion, respectively.³⁶ State collections were 17% of federal in 2001 and 14% in 2000 and 1999. Imposing such a percentage of federal collection would be equivalent for a 35% bracket taxpayer of a 5%–6% state tax. Provision, of course, would need to be made for the federal deduction of the state tax, as is done currently.

Such a proposal would replace the income that the states are raising and relieve the states of administrative costs. Corporations in the aggregate would be paying the same amount of tax, although individual corporations might think they could do better. The elimination of the administrative costs would be substantial. Although some corporations may think of their tax department as a “profit center,” as state and federal tax administrators become more aggressive and more penalties are asserted, a less aggressive attitude by corporations may be taken. Furthermore, corporations are always concerned that assessments are made just below the level that justifies litigation. By having the issues all tied to the federal return, this problem would no longer exist.

States may prefer to tailor their state corporate income tax to encourage location of business within the state. It is questionable whether this is an effective long-term technique, as states adopt the same techniques to face the competition from other states.³⁷

V. NECESSITY OF COORDINATION OF FEDERAL AND STATE TAX AND WELFARE PROGRAMS

The tax system has been used to provide benefits to individuals with low income. The largest of these programs is the Earned Income Tax Credit,³⁸ but other tax credits are limited on the basis of income.³⁹ However

35. *State Tax Collections and Rates Tax Foundation Special Report No. 121*, TAX FOUND. 3 (2003), at <http://www.taxfoundation.org/sr121.pdf>.

36. Internal Revenue Gross Collections, by Type of Tax, Fiscal Years 1971–2003, at <http://www.irs.gov/pub/irs-soi/03db07co.xls>.

37. Note the history of formula apportionment with increased emphasis on the sales factor. Iowa was the first to go to the ultimate of a single factor sales formula, which has forced other states to follow suit.

38. See I.R.C. § 32 (1986); WIS. STAT. § 71.07(5m) (2003).

the program is designed, at some level of income the program ends. Rather than have a cliff at which the program ends, it normally gradually ends. A cliff-ending would provide a large loss for \$1 more income. It is desirable that the phase-out is such that it does not discourage the individual from earning more income. For example, a reasonable phase-out would be that after some level of income is reached, the benefit declines 20 cents for every dollar earned.⁴⁰ One could think of this as an imputed tax rate of 20%.

Such a phase-out would seem reasonable. If, however, both the state and federal government have similar programs for each \$1 of income, the reduction will be 40 cents or an imputed tax rate of 40%. But the story does not end there. Wisconsin also provides a Homestead Credit. In addition, there are a number of welfare programs. The federal government provides food stamps, and Wisconsin provides Badger Care and Child Care Benefits.⁴¹ If there are 5 such programs, each with a 20% phase-out, the imputed tax rate is 100%. If the wealthy lose incentive with a 50% or greater tax rate, the poor facing a 100% tax rate will certainly lose incentive.

If there are 5 programs, such a result is inherent unless some programs have cliffs, which means that at some point the tax rate exceeds 100% or the phase-out is slower than 20%. As the phase-out is slowed down, more and more individuals qualify and the costs increase.

The effect of this policy in Wisconsin is that a single parent with two children under school-age has virtually no increase in spendable funds when compensation rises from \$5.35 per hour to \$10.00 per hour. At \$14.00 per hour, the amount available is less than at \$5.35.⁴²

The situation may not be as bad as indicated, as by the time the income level increases, the single parent's children may be of school-age and thus not need extensive daycare, and the employer may be providing medical insurance. The implication is that whenever phase-outs are included in a program, the effect, when combined with other programs, should be considered.

39. I.R.C. §§ 22, 24, 25A (1986).

40. The actual phase out for the federal program is 15.98% for one child and 21.06% for two children. See I.R.C. § 32(b)(1) (2004).

41. These are desirable benefits. They are unlikely if people are going to get off welfare and go to work without medical insurance or child care for their children.

42. See Steve Holt & Kathleen Mulligan-Hansel, *Danger Zones: When Earning More Can Mean Getting Less*, INST. FOR WISCONSIN'S FUTURE, POL'Y RES. IN PUB. INT. 4 (2003).

VI. CONCLUSION

Administrative expenses on the taxpayer and government side can be reduced by the state having its tax policy subservient to the federal government tax policy. In the case of the individual income tax, this would result in simplicity. If the federal government could become the collector of state sales tax and corporate income tax, substantial administrative savings could result. This requires forbearance in initiating separate tax policies and, in the case of state sales tax and corporate income tax, coordination with other states.

APPENDIX

Modifications to the federal definition of adjusted gross income to arrive at Wisconsin adjusted gross income are the result of various policies. The following list outlines some of the key modifications.

- Interest on federal government obligations is excluded under federal law from state taxation.⁴³ Interest on state and municipal bonds, other than Wisconsin bonds, is included.⁴⁴
- In order to enforce Wisconsin taxes on nonresidents, deductions are denied to entertainers or entertainment corporations that do not comply with the Wisconsin withholding requirements.⁴⁵ Corporations are denied a deduction if they fail to make required withholding on reporting of wages and rents.⁴⁶
- In order to not allow deductions properly allocable to other states, deductions are denied for: (1) penalties for early withdrawals from time saving accounts paid while the individual was a nonresident; (2) reforestation expenses relating to property not in Wisconsin; (3) payments for various retirement plans, health insurance, and employment taxes while the individual is a nonresident are

43. WIS. STAT. § 71.05(6)(b)(1) (2003).

44. WIS. STAT. § 71.05(6)(a)(1) (2003).

45. WIS. STAT. § 71.05(6)(a)(8) (2003).

46. WIS. STAT. § 71.26(3)(e) (2003).

limited to the portion of wages earned in Wisconsin; and (4) deduction for moving expenses is denied when moving out of Wisconsin.⁴⁷

- Credits similar to the federal credits are provided for research and development⁴⁸ and historic preservation,⁴⁹ and a deduction for adoption expenses up to \$5000 is allowed.⁵⁰
- In the case of some changes made by federal law, Wisconsin has kept the old law. This includes exclusion of disability payments and unemployment compensation, and taxation of social security.⁵¹
- Wisconsin has not adopted the changes in federal depreciation since December 31, 2000,⁵² presumably because of revenue costs, despite the complexity burden.
- Modifications are made for differences in federal and state tax basis.⁵³
- The income tax has been used to provide relief from other taxes including a credit for sales tax paid on fuel and electricity used in manufacturing,⁵⁴ and a credit on property tax for farmland⁵⁵ and low-income individuals.⁵⁶
- Additional deductions and credits are provided reflecting state policy choices:
 - Deductions are provided for health insurance for self-employed⁵⁷ and long-term care insurance.⁵⁸

47. WIS. STAT. §§ 71.05(6)(a)(12), (18) (2003).

48. WIS. STAT. §§ 71.28(4), (5) (2003).

49. WIS. STAT. §§ 71.07(9r), 71.28(6) (2003).

50. WIS. STAT. § 71.05(6)(b)(22) (2003).

51. WIS. STAT. §§ 71.05(6)(b)(4), (8), 21 (2003).

52. WIS. STAT. §§ 71.26(3), (4) (2003).

53. See WIS. STAT. §§ 71.05(12), (19), (21) (2003).

54. WIS. STAT. §§ 71.07(3s), 71.28(3a) (2003).

55. WIS. STAT. §§ 71.07(3), (3a), (3m) and 72.28(2), (2m) (2003).

56. WIS. STAT. § 71.07(4) (2003) (homestead credit).

57. WIS. STAT. §§ 71.05(6)(b)(19), (20) (2003).

- A credit is provided for military service overseas.⁵⁹ Compensation paid to the military during Operation Desert Storm and Desert Shield was exempt for enlisted men and exempt up to \$500 a month for officers.⁶⁰
- Incentives are provided for college education: The value of a tuition unit purchased under a tuition contract is excluded,⁶¹ a deduction is allowed for tuition in Wisconsin or Minnesota paid for the taxpayer or a dependent,⁶² and college savings accounts are not taxed and amounts contributed to them may be deducted.⁶³
- Special provisions are provided for farmers: Gains on sales to a related person are exempt,⁶⁴ a credit is provided in the case of drought,⁶⁵ and a dairy investment credit is provided.⁶⁶
- In order to encourage economic development, credits are provided for investments in Community Development Finance Authority, Development Zones, and Technology Zones.⁶⁷ A manufacturing investment tax credit is to begin after 2007.⁶⁸ No gain is taxed on sales of stock in a defined small business corporation if purchased upon original incorporation.⁶⁹
- Amounts recovered by an individual persecuted by Nazi Germany or an Axis regime are not subject to tax.⁷⁰

58. WIS. STAT. § 71.05(6)(b)(26) (2003).

59. WIS. STAT. § 71.07(6m) (2003).

60. WIS. STAT. §§ 71.05(6)(b)(13), (14) (2003).

61. WIS. STAT. § 71.05(6)(b)(23) (2003).

62. WIS. STAT. § 71.05(6)(b)(28) (2003) (subject to income limitation and limited to \$3,000).

63. WIS. STAT. §§ 71.05(6)(b)(31), (32), (33) (2003).

64. WIS. STAT. § 71.05(6)(b)(25) (2003).

65. WIS. STAT. §§ 71.97(2fd), 71.27(1fd) (2003).

66. WIS. STAT. §§ 71.07(3n), 71.28(3n) (2003).

67. WIS. STAT. §§ 71.07(2), (2dd), (2di), (2dj), (2dl), (2dm), (2dr), (2ds), (2dx), (3g), 71.28(1), (1dd), (1de), (1di), (1dj), (1dL), (1dm), (1ds), (1dy), (3g) (2003).

68. WIS. STAT. §§ 71.07(3t), 71.28(3) (2003).

69. WIS. STAT. § 71.05(6)(b)(6) (2003).

70. WIS. STAT. § 71.05(6)(b)(30) (2003).

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