Is the Dairy State Ready for Tax Reform?

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This week Senator Kathleen Vinehout writes about Rep. Kooyenga's proposed tax reform plan. Kathleen appreciates that he wants to have a conversation about tax reform, but she does not support his proposal. She offers to work with him on a bi-partisan proposal that is modeled after what experts tell us: Taxes should be low, broad-based, and transparent. Tax policy should not favor one type of business over another.

MADISON - Get rid of tax credits for dairy farmers? No tax breaks for meat or food processing plants? Get rid of credits for ethanol? Cut beginning farmer credits?

You've got to give Representative Dale Kooyenga credit. The Brookfield Republican isn't afraid to take on the dairy state's sacred cows.

Just as the state's budget writing committee is wrapping up their work and Legislative leaders are about to broker a deal on public education and health, Rep. Kooyenga announces a proposal to rewrite the income tax code.

He seems to start with agriculture in mind. I bet there aren't many cows in Brookfield.

Last summer, Representative Kooyenga and I served on a committee studying changes to the state's income tax code. So it didn't surprise me to see he was working on income tax reform.

But his timing in unveiling the proposal and what seem to be big changes for farmers and ag-related businesses almost ensure its demise.

That's too bad because Wisconsin's complex tax system needs reform.

The complexity is the product of tax loopholes, not tax rates. The State Legislature rarely meets a tax credit it doesn't like. The result is a cumbersome tax code that hasn't been seriously evaluated since 1999 and then the Legislature ended work without repealing a single tax credit.

There are 73 possible state adjustments after you file your federal taxes and there are dozens of credits to modify those adjustments. In the 2013 Department of Revenue report, I counted 37 credits that totaled $1.5 billion in lost revenue. My friends at the Revenue Department will remind me that the credits interact with each other and can't always be added together: more complexity.

Messing around with state income tax is frightening for anyone who runs an operation dependent on the state. That's because so much of what the state buys is paid for by income taxes. State income tax makes up over half of the general fund – the source of state money for health, education, local government, corrections and universities. Wisconsin is more dependent on income taxes than all but 11 other states.

While I commend the Brookfield Republican for getting this conversation started, I don't agree with details of his proposal. For example, the proposed lowering of tax rates for high income earners - over $300,000. I don't support his plan to allow millionaires to offset high off-farm earnings with (part-time?) farm losses. Currently no farm loss is allowed if it exceeds $600,000.

The plan favors the wealthy and doesn't include serious reform of property tax – the part of our tax system most out of line with the national average. Start-up companies are most burdened by property tax which impacts job creation.

In the interest of advancing reform, I'd offer to be a bipartisan partner in the discussion.

First, let’s agree on a few ground rules. The goal of tax reform must be revenue neutral – meaning when all the tax breaks and loopholes are ended, every dime must go to lowering rates – but not one penny below the total dollars saved by tax changes.

I know Republicans who are too tempted to lower rates more than what we can afford. And some Democrats are very tempted to plow savings into new spending.

Second, reform must be bipartisan, regardless of the party in power. Why? Because in this hyper-negative political environment, no rookie in a swing district is going to be comfortable voting to end a tax break to (name your favorite good cause) unless they know the party against them also voted to end the same break.

Third, all taxes should be on the table. Property taxes can be regressive. Sales tax is almost always regressive. An income tax change on one group should be considered in the context of all other taxes that groups pays.

Finally, no tax break is sacred. All should be regularly evaluated even if they are not eliminated. We badly need a process to evaluate what we get for our investment.

The experts agree. Taxes should be low, broad-based, and transparent. Tax policy should not favor one type of business over another. But getting there is not for the faint-hearted. And timid does not describe my friend Dale.

So, while you’re at it, Dale, maybe get rid of the Lambeau Field tax check-off?

Oh, you just did?

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