



Legislative Fiscal Bureau

One East Main, Suite 301 • Madison, WI 53703 • (608) 266-3847 • Fax: (608) 267-6873
Email: fiscal.bureau@legis.wisconsin.gov • Website: <http://legis.wisconsin.gov/lfb>

May 11, 2026

TO: Members
Wisconsin Legislature

FROM: Bob Lang, Director

SUBJECT: May 2026 Special Session LRB-6707 and LRB-6710

LRB-6707 and LRB-6710, companion bills, (hereafter "the bill") would make a number of changes to state law governing education and taxes. The provisions of the bill are described below. [A link to the bill is [here](#)].

SUMMARY OF BILL PROVISIONS

Special Education Aid. The primary special education appropriation reimburses a portion of the costs of educating and transporting pupils enrolled in special education. School districts, independent charter schools, cooperative educational service agencies (CESAs), and county children with disabilities education boards (CCDEBs) are eligible to receive aid under the program. Reimbursements are calculated based on aidable costs in the prior school year. Payments are made from a sum certain appropriation, with the dollar amount set by the Legislature during the budget process. The actual proration rate in each year is calculated by dividing the amount of appropriated funding by the total prior year aidable costs reported by districts. In 2024-25, \$574,777,700 GPR was appropriated for special education aid and the final proration rate was 30.64%. Under 2025 Act 15, the appropriation for special education was increased to \$782,408,800 GPR in 2025-26 and \$871,826,900 GPR in 2026-27.

The bill would increase the dollar amounts in the sum certain special education aid appropriation by \$85,000,000 GPR in 2025-26 and \$230,000,000 GPR in 2026-27. The total amounts in the appropriation would equal \$867,408,800 GPR in 2025-26 and \$1,101,826,900 GPR in 2026-27. Based on costs as of March, 2026, it is estimated that this additional funding would reimburse costs at a rate of 42.7% in 2025-26, and 50.0% in 2026-27. The actual reimbursement rate could be higher or lower, depending on final prior year aidable costs.

Choice, Charter, Special Needs Scholarship, and Open Enrollment Program Indexing. Under current law, per pupil payments in the private school choice, independent charter, special needs scholarship, and open enrollment programs are indexed so that in future years, the payments

will increase by the revenue limit per pupil adjustment, if positive, provided to school districts in the current year, plus a proportion of the change in the low revenue adjustment amount under revenue limits from the prior year to the current year, if positive, plus the change in total categorical aid funding per pupil, if positive, from the prior year to the current year.

As a result of the increase in special education aid, the per pupil payments for pupils participating in the choice, charter, special needs scholarship, and open enrollment programs would increase by \$108 in 2025-26, and an additional \$186 in 2026-27. The estimated net GPR increase as a result of the increased payments for these programs would be \$4,300,000 GPR in 2025-26, and \$12,000,000 GPR in 2026-27.

General School Aid. Under current law, \$5,581.2 billion GPR is appropriated for general school aids, with the majority of the funding distributed through an equalization aid formula based on per pupil property valuations. General aid is under revenue limits, so an increase in the general aid appropriation offsets a portion of the school levy for local property tax payers. A separate per pupil categorical aid program provides payments of a statutorily-specified \$742 per pupil outside of revenue limits.

The bill would create a new first draw school aid that would be paid from the existing general school aids appropriation, and increase that appropriation by \$302.5 million GPR beginning in 2026-27. Aid would be distributed using a formula under which 25% of the amount allocated would be divided by the average number of pupils enrolled statewide in the previous three school years and distributed to school districts proportionately based on the district's average number of pupils enrolled in the previous three school years. The remaining 75% of the amount allocated would be divided by the average number of pupils enrolled statewide in the current and previous two school years and distributed to school districts proportionately based on the district's average number of pupils enrolled in the current and previous two school years. The aid would be paid on a schedule similar to the distribution schedule for equalization aids with the first 25% paid on the third Monday of September and the remaining 75% paid in three equal installments on the first Monday of December, the fourth Monday of March, and the third Monday of June.

The bill specifies that the count for the aid distribution would include pupils enrolled in independent charter schools authorized by entities given that authority under 2015 Act 55 or later (currently, the Director of the Office of Educational Opportunity, the Lac Courte Oreilles Ojibwe College, and the Waukesha County Executive), which would increase aid for the school districts in which these pupils live, but would not affect payments to independent charter schools.

Payments from the general aid appropriation are under revenue limits, so the additional aid would provide property tax relief but not additional resources for school districts. Based on current enrollment, it is estimated that the payment would be equal to approximately \$387 per pupil.

Additionally, the bill would clarify that pupils enrolled in independent charter schools authorized by new authorizers would be excluded for the calculation of the current law per pupil categorical aid, which is consistent with current law.

Wisconsin Technical College System Property Tax Relief Aid. Prior to 2014-15, the property tax was the largest source of revenue for the Wisconsin Technical College System

(WTCS) and represented around 50% of total system revenues. Following the implementation of 2013 Act 145, which provided \$406 million annually for property tax relief aid associated with the WTCS levy, the percentage of revenues funded by property taxes decreased to around 30% of the total. Technical college district levies are restricted by a revenue limit, under which districts are prohibited from increasing their revenue in any year by a percentage greater than the valuation factor (the percentage change, if positive, in the district's equalization value due to aggregate new construction in the district). For purposes of the revenue limit, revenue is defined as the sum of the property tax relief aid and the tax levy; therefore, if additional property tax relief aid is provided, the allowable tax levy decreases.

Under 2021 Act 58, the amount of property tax relief aid increased to \$435 million in 2021-22 and \$449 million in 2022-23, and has remained unchanged since. The aid is distributed to WTCS districts based on the ratio of each district's equalized value to the total equalized value of all districts on January 1, 2014.

The bill would increase expenditures for property tax relief aid for WTCS by an additional \$50,000,000 GPR beginning in 2026-27. Property tax relief aid is counted under each district's revenue limit, and therefore each district's property tax relief aid reduces its operational levy by an equal amount.

State Income Tax Exclusion for Overtime Compensation. The starting point for determining Wisconsin adjusted gross income (AGI) is federal AGI, which itself is derived from gross income. Gross income includes all items of income received by a taxpayer, unless a specific exclusion applies. For federal and state tax purposes, gross income includes overtime compensation.

Pursuant to P.L. 119-21 (the One Big Beautiful Bill Act), federal law provides a deduction for up to \$12,500 (\$25,000 married-joint) of qualified overtime compensation, subject to an income-based phaseout. The deduction applies for tax years 2025 through 2028, and is set to expire thereafter. Qualified overtime compensation is defined as overtime compensation paid to an individual required under Section 7 of the Fair Labor Standards Act of 1938 that is in excess of the regular rate at which such individual is employed (such as the "half" portion of "time-and-a-half" compensation). Qualified overtime compensation does not include qualified tips deducted under separate provisions of federal law.

The deduction is reduced by \$100 for every \$1,000 by which the taxpayer's modified AGI exceeds \$150,000 (\$300,000 for married-joint filers). Modified federal AGI equals federal AGI plus certain foreign earned income amounts otherwise excluded from tax. As a result, the deduction is fully phased out for modified AGI above \$275,000 (\$550,000 married-joint).

Married taxpayers are required to file using the married-joint filing status to qualify for the deduction. The taxpayer must include their social security number on their return to be eligible for the deduction.

P.L. 119-21 requires Form W-2 to include the total amount of qualified overtime compensation, and authorizes the Treasury Secretary to prescribe any regulations or other guidance necessary to carry out the deduction, including to prevent abuse of the deduction.

Beginning in tax year 2026, the bill would provide an annual exclusion equal to the amount of overtime compensation that the claimant may deduct for federal tax purposes in the same tax year. As a result, any subsequent federal law changes to the overtime deduction would automatically apply for state tax purposes under the bill. However, unlike the federal deduction, the state exclusion would not expire after tax year 2028. Instead, claimants could continue to claim the exclusion based on the amounts that would have otherwise applied had the federal deduction been extended beyond tax year 2028.

The definition of "qualified overtime compensation" in effect for federal purposes would apply to the exclusion under the bill. A cross reference is included in the bill to maintain current law as it relates to the computation of household income under the refundable homestead tax credit.

The exclusion for nonresident/part-year resident filers would be prorated according to the portion of qualified overtime compensation earned in Wisconsin relative to such compensation earned everywhere. For example, a nonresident/part-year resident taxpayer with a total of \$50,000 of qualified overtime compensation, including \$10,000 of such compensation earned in Wisconsin, would be eligible for an exclusion equal to 20% of the amount of the deduction they claim on their federal return in the same year ($\$10,000 / \$50,000 = 0.2$ or 20%).

The overtime exclusion is estimated to reduce individual income tax collections by a minimal amount in 2025-26, \$179,900,000 in 2026-27, and \$148,100,000 in 2027-28.

State Income Tax Exclusion for Tip Income. For federal and state tax purposes, gross income generally includes tips. Pursuant to P.L. 119-21, federal law provides a deduction for up to \$25,000 of "qualified tips", subject to an income-based phaseout. The deduction applies for tax years 2025 through 2028, and is set to expire thereafter.

Qualified tips are: (a) those that are included on statements furnished by the employer to the employee (as required under current federal law) or that are reported by the claimant on their federal income tax return; and (b) cash tips received by an individual in an occupation which customarily and regularly received tips on or before December 31, 2024, as determined by the U.S. Treasury Secretary. Cash tips mean tips received from customers that are paid in cash or charged, and tips received under any tip-sharing arrangement.

Tips do not qualify for the deduction unless they are: (a) paid voluntarily without any consequence in the event of nonpayment; (b) not the subject of negotiation; and (c) determined by the payor. The deduction is not allowed for businesses engaging in: investment-related services; trading; dealing in securities, partnership interests, or commodities; health; law; accounting; actuarial science; performing arts; consulting; athletics; financial services; brokerage services; or any trade or business where the principal asset is the reputation or skill of one or more of its employees.

The deduction is reduced by \$100 for every \$1,000 by which the taxpayer's modified federal AGI exceeds \$150,000 (\$300,000 for married-joint filers). As a result, the deduction is fully phased out for modified federal AGI above \$400,000 (\$550,000 married-joint).

Married taxpayers must file using the married-joint filing status to qualify for the deduction. Taxpayers must include their Social Security number on their income tax return to be eligible for the

exclusion. Similar W-2 reporting requirements as described for the overtime exclusion also apply to the tips exclusion.

Beginning in tax year 2026, the bill would provide an annual exclusion equal to the amount of tip income that the claimant may deduct for federal tax purposes in the same tax year. As a result, any subsequent federal law changes to the tips deduction would automatically apply for state tax purposes under the bill. However, unlike the federal deduction, the state exclusion would not expire after tax year 2028. Instead, claimants could continue to claim the exclusion based on the amounts that would have otherwise applied had the federal deduction been extended beyond tax year 2028.

The definition of "qualified tips" in effect for federal purposes would apply to the exclusion under the bill. The provisions that would apply to the overtime exclusion described above regarding the definition of household income under the homestead credit and the computation of the exclusion for nonresident/part-year resident filers would also apply to the tips exclusion under the bill.

The tips exclusion is estimated to reduce individual income tax collections by a minimal amount in 2025-26, \$52,900,000 in 2026-27, and \$48,900,000 in 2027-28.

The overtime and tips exclusions created under the bill are based on similar deductions provided under federal law. However, the federal deductions are only available between tax years 2025 and 2028 under current law. If the federal deductions were to expire after tax year 2028, Form W-2 and Form 1099 for subsequent tax years would likely no longer enumerate the total amount of qualified overtime or tip compensation. To facilitate administration in such a scenario, the Department of Revenue (DOR) would likely be required to create state-specific forms for employers to report all necessary information relevant to the state exclusions (similar to how employers are required to report to the Internal Revenue Service under current federal law), which could increase the administrative burden for employers and the Department after tax year 2028.

Income Tax Rebate. Taxable income, the amount of income actually subject to state tax, is calculated under current law by subtracting the sliding scale standard deduction and personal exemptions from Wisconsin AGI. The state's marginal rate and bracket schedule is then applied to taxable income to determine gross tax liability, against which any nonrefundable credits may be applied to determine net tax liability. Nonrefundable credits reduce tax liability dollar-for-dollar, but cannot be used to reduce liability below \$0.

The bill provides that an individual who filed an individual income tax return for tax year 2024 would be eligible to receive a payment equal to \$300 (\$600 married-joint), or their tax year 2024 net tax liability, whichever is less. Only full-year residents of Wisconsin that cannot be claimed as a dependent on another taxpayer's return would be eligible for the payment. However, if a nonresident or part-year resident has 90% or more of their total income taxable in Wisconsin in tax year 2024, that person would be eligible for the payment. Married-joint filers where one spouse could be claimed as a dependent in tax year 2024 would be eligible for a maximum payment of \$300. Individuals who have died since filing their tax year 2024 return would be ineligible for the payment, except a tax year 2024 married-joint filer where only one spouse subsequently passes away would remain eligible for the maximum married-joint payment amount of \$600.

DOR would be required to identify taxpayers who are eligible to receive a payment and the amount of payment due each taxpayer. DOR would be required to certify the allowable amount of the payment to the Department of Administration (DOA) for payment by check, share draft, or other draft. DOA would be required to make the payments no later than September 15, 2026, and promptly notify DOR and the Legislative Reference Bureau (LRB) once it has finished issuing the payments.

DOR would be required to establish procedures for taxpayers who do not receive a payment, or receive less than the full amount for which they are eligible, to file a claim for payment. DOR would also be required to establish an online portal for these individuals to file a claim for payment. No taxpayer could make a claim for a payment after December 15, 2026.

The payment would be subject to offset against any outstanding tax debts or other debts owed by the recipient or the recipient's spouse. Current law income and franchise tax provisions applicable to DOR's enforcement authority, and to assessments, refunds, appeals, collection, interest, and penalties, would also apply to the payment.

The payments would increase state GPR expenditures by an estimated \$870,000,000 on a one-time basis in 2026-27. However, it is possible that a portion of the fiscal effect could be realized in 2025-26, depending upon the timing of passage of the bill and the timing of payments to eligible individuals. It is estimated that 3.06 million individuals (including spouses) would be eligible for the payment.

COMBINED FISCAL EFFECT OF BILL

The following table displays the combined fiscal effect of the bill (in millions). The bill is estimated to reduce the state general fund balance by \$89.5 million in 2025-26 and \$1,724.5 million in 2026-27. This estimate includes an estimated reduction to interest earnings on the balance in the general fund of \$0.2 million in 2025-26 and \$27.2 million in 2026-27.

	<u>2025-26</u>	<u>2026-27</u>	<u>Fund</u>
Special Education	\$85.0	\$230.0	GPR
Choice, Charter and Special Needs Effect	4.3	12.0	GPR
General Aid	0.0	302.5	GPR
WTCS Property Tax Relief Aid	0.0	50.0	GPR
Overtime Exclusion	minimal	-179.9	GPR-Tax
Tip Exclusion	minimal	-52.9	GPR-Tax
Income Tax Rebate	0.0	870.0	GPR
Interest Earnings Reduction	-0.2	-27.2	GPR-Earned
Effect on 2025-27 General Fund Balance		-\$1,814.0	

The attached table displays the estimated 2025-27 general fund condition statement. The statement is based upon the following: (1) the January 15, 2026, projections of the Legislative Fiscal Bureau; (2) all bills enacted in the current legislative session (2025 Acts 1 to 247); (3) actions, to date, of the Joint Committee on Finance; and (4) the provisions of the bill identified in this document.

Recently (May 11), the Secretaries of the Department of Administration and Revenue sent a brief memorandum to the Governor suggesting that general fund tax collections for 2025-26 could exceed currently estimated collections for that year in a range of \$300 million to \$350 million; this is 1.3% to 1.5% above the current estimate. Their report is based primarily on collections, through April, in individual and corporate income taxes. It should be noted that preliminary final collection information will not be available until the end of August and actual revenue and expenditure data for 2025-26 will not be reported until October 15. Also, the Administration's report notes that collections during the remainder of the fiscal year may alter the results of their report in either direction.

Attachment

ATTACHMENT

**General Fund Condition Statement
With Proposed Budget Items and All 2025 Acts**

	<u>2025-26</u>	<u>2026-27</u>
Opening Balance	\$4,605,574,000	\$2,860,202,500
Revenues		
Taxes	\$22,681,400,000	\$23,216,560,000
<i>Proposal Effects on Taxes</i>	0	-232,800,000
Departmental Revenues		
Tribal Gaming	12,176,500	13,992,700
Other	708,250,200	570,562,400
<i>Proposal Effect on Interest Earnings</i>	<u>-200,000</u>	<u>-27,200,000</u>
Total	\$28,007,200,700	\$26,401,317,600
Appropriations, Transfers, and Reserves		
Gross Appropriations	\$22,784,736,900	\$23,062,406,000
<i>Proposal Effect on Net GPR</i>	89,300,000	1,464,500,000
Transfers		
Building Program	326,500,000	0
Transportation Fund - EV	28,038,500	28,470,600
Transportation Fund - 0.25%	54,901,100	56,517,700
Transportation Fund - Other	580,000,000	0
Local Government Fund	1,587,022,700	1,622,776,600
Mental Health Institutes	15,800,000	0
Veterans Homes	5,100,000	0
Compensation Reserves	159,891,200	225,809,500
Less Lapses	<u>-484,292,200</u>	<u>-612,608,300</u>
Net Appropriations	\$25,146,998,200	\$25,847,872,100
Balances		
Gross Balances	\$2,860,202,500	\$553,445,500
Less Required Statutory Reserve	<u>-110,000,000</u>	<u>-115,000,000</u>
Net Balances	\$2,750,202,500	\$438,445,500