



State of Wisconsin
2025 - 2026 LEGISLATURE

May 2026 Special Session

LRB-6707/1
EK/KP/KS/FK/AG:all

BILL

1 **AN ACT** *to amend* 71.52 (6), 115.437 (1), 121.07 (7) (b), 121.105 (title) and
2 121.105 (1); *to create* 20.835 (2) (cd), 38.16 (4) (c), 71.05 (6) (b) 60., 71.05 (6) (b)
3 61. and 121.105 (5) of the statutes; **relating to:** an income tax subtraction for
4 qualified tips and for qualified overtime compensation; state aid for school
5 districts; surplus refund payments; increasing funding for special education
6 and school age parents programs; state aid to technical colleges and the
7 technical college district revenue limit; and making an appropriation.

Analysis by the Legislative Reference Bureau

Funding for special education and school age parents programs

This bill provides an additional \$85,000,000 in fiscal year 2025-26 and \$230,000,000 in fiscal year 2026-27 for special education and school age parents programs. Under current law, the state reimburses the full cost of special education for children in hospitals and convalescent homes for orthopedically disabled children. After those costs are paid, the state reimburses school boards, operators of independent charter schools, cooperative educational service agencies (CESAs), and county children with disabilities education boards (CCDEBs) for costs incurred to provide special education and related services to children with disabilities and

for school age parents programs (eligible costs) from the amount remaining in the appropriation at a rate that distributes the full amount appropriated.

The amount appropriated for special education and school age parents programs in the biennial budget was estimated to provide a proration rate of 42 percent in fiscal year 2025-26 and 45 percent in fiscal year 2026-27. However, on November 17, 2025, the Department of Public Instruction notified school districts and other eligible entities that the interim proration rate is 35 percent due to an increase in projected eligible costs during the 2025-27 fiscal biennium. By increasing the amount appropriated for these aid programs, the bill increases the proration rate for aid for eligible costs to an estimated 42 percent in fiscal year 2025-26 and an estimated 50 percent in fiscal year 2026-27.

Currently, DPI provides 1) special education aid to school districts, independent charter schools, CESAs, and CCDEBs; 2) aid for school districts, CESAs, and CCDEBs for providing physical or mental health treatment services to private school and tribal school pupils; and 3) aid for school age parents programs to school districts only.

Per pupil aid; state aid

Under current law, per pupil aid is a categorical aid paid to school districts. Per pupil aid is funded from a sum sufficient appropriation and is not considered state aid for purposes of revenue limits. Under current law, the amount of per pupil aid paid to a school district is calculated using a three-year average of the number of pupils enrolled in the school district and a per pupil amount set by law. For purposes of this categorical aid, the number of pupils enrolled in a school district does not include pupils enrolled in an independent charter school. Currently, the per pupil amount is \$742. This aid is paid to school districts on the fourth Monday in March.

The bill creates a second per pupil aid for school districts that is funded from a sum certain appropriation and is considered state aid for purposes of revenue limits (per pupil state aid). Under the bill, beginning in the 2026-27 school year, the per pupil amount of per pupil state aid is determined by dividing the amount appropriated for per pupil state aid for the current school year by a three-year average of the number of pupils enrolled statewide. The per pupil amount is then multiplied by a three-year average of the number of pupils enrolled in a school district. For purposes of per pupil state aid, the number of pupils enrolled in a school district includes pupils enrolled in an independent charter school other than a legacy independent charter school. The bill appropriates \$302,500,000 for per pupil state aid in the 2026-27 school year. Finally, the bill requires per pupil state aid to be paid on a schedule that is similar to the distribution schedule for equalization aids.

State aid to technical colleges and the technical college district revenue limit

The bill increases state funding for technical colleges and reduces by an equivalent amount the revenue that technical college district boards may generate from the property tax levy.

Under current law, with certain exceptions, a technical college district board may not increase its revenue each school year by more than the greater of 1) 0 percent or 2) the percentage change in the district's equalized value due to new construction, less improvements removed, between the previous year and the current year. The amount of this limit is called the "valuation factor." A district board's revenue is the sum of its tax levy for operations and the amount of aid it receives for property tax relief and tax-exempt personal property.

The bill increases the amount of state aid annually distributed to technical college district boards by \$50,000,000, which also results in an equivalent reduction in the amount of the property tax levy authorized for technical college district boards.

Income tax subtraction for qualified tips

The bill creates an income tax subtraction for qualified tips that a claimant may deduct on the claimant's federal income tax return. Under current federal law, a person may deduct certain qualified tips from the person's income for federal income tax purposes. Federal law generally defines "qualified tips" as cash or charged tips received by an individual in an occupation that traditionally and customarily receives tips, as determined by the secretary of the U.S. Department of the Treasury. Under current federal law, the federal deduction for qualified tips sunsets after tax year 2028. The bill contains no sunset for the subtraction for qualified tips.

Income tax subtraction for qualified overtime compensation

The bill creates an income tax subtraction for qualified overtime compensation that a claimant may deduct on the claimant's federal income tax return. Under current federal law, a person may deduct certain qualified overtime compensation from the person's income for federal income tax purposes. Federal law generally defines "qualified overtime compensation" as overtime compensation paid to a person under the federal Fair Labor Standards Act that is in excess of the person's regular rate of pay. Under current federal law, the federal deduction for qualified overtime compensation sunsets after tax year 2028. The bill contains no sunset for the subtraction for qualified overtime compensation.

Surplus refund payments

The bill provides a surplus refund payment to taxpayers who filed a Wisconsin individual income tax return for tax year 2024 and who owed Wisconsin individual income tax for that year. The payment is \$600 for married persons filing a joint return and \$300 for all other individuals. The payment may not exceed the amount of the taxpayer's 2024 net income tax liability. No payment may be paid to any of the following: 1) taxpayers who were a dependent of another taxpayer in tax year 2024; 2) certain taxpayers who are deceased; or 3) part-year residents or nonresidents whose Wisconsin income in tax year 2024 was less than 90 percent of total income.

Under the bill, the Department of Revenue must identify taxpayers who are eligible to receive the payments and the Department of Administration must issue the payments without taxpayers having to take any further action. The bill

requires that DOA issue the payments no later than September 15, 2026. A taxpayer who does not receive the amount of payment for which he or she is eligible may file a claim by using a portal on DOR's website. No claims may be filed after December 15, 2026.

Because this bill relates to an exemption from state or local taxes, it may be referred to the Joint Survey Committee on Tax Exemptions for a report to be printed as an appendix to the bill.

For further information see the state and local fiscal estimate, which will be printed as an appendix to this bill.

The people of the state of Wisconsin, represented in senate and assembly, do enact as follows:

1 **SECTION 1.** 20.835 (2) (cd) of the statutes is created to read:

2 20.835 (2) (cd) *Surplus refund payments.* A sum sufficient to make the
3 payments under 2025 Wisconsin Act ... (this act), section 9137 (1).

4 **SECTION 2.** 38.16 (4) (c) of the statutes is created to read:

5 38.16 (4) (c) For the payment in 2027 and annually thereafter, \$50,000,000 in
6 addition to the amount under par. (b).

7 **SECTION 3.** 71.05 (6) (b) 60. of the statutes is created to read:

8 71.05 (6) (b) 60. a. Subject to the limitation under subd. 60. b., for taxable
9 years beginning after December 31, 2025, the amount that the claimant may deduct
10 under section 224 of the Internal Revenue Code in effect for federal purposes on the
11 claimant's federal income tax return for the taxable year to which the claim under
12 this subdivision relates.

13 b. For an individual who is a part-year resident or nonresident of this state,
14 the subtraction under this subdivision for the taxable year may not exceed the
15 amount that is calculated by multiplying the amount that the individual may
16 deduct under section 224 of the Internal Revenue Code in effect for federal purposes

1 on the individual's federal income tax return by a fraction the numerator of which is
2 the individual's qualified tips that are taxable by this state and the denominator of
3 which is the individual's total qualified tips.

4 c. Notwithstanding section 224 (h) of the Internal Revenue Code, for taxable
5 years beginning after December 31, 2028, a claimant may claim the subtraction
6 under this subdivision as if section 224 (h) of the Internal Revenue Code did not
7 prohibit the claimant from deducting an amount on the claimant's federal income
8 tax return for taxable years beginning after December 31, 2028.

9 d. In this subdivision, "qualified tips" has the meaning given in section 224 (d)
10 of the Internal Revenue Code in effect for federal purposes.

11 **SECTION 4.** 71.05 (6) (b) 61. of the statutes is created to read:

12 71.05 (6) (b) 61. a. Subject to subd. 61. b. and c., for taxable years beginning
13 after December 31, 2025, the amount that the claimant may deduct under section
14 225 of the Internal Revenue Code in effect for federal purposes on the claimant's
15 federal income tax return for the taxable year to which the claim under this
16 subdivision relates.

17 b. For an individual who is a part-year resident or nonresident of this state,
18 the subtraction under this subdivision for the taxable year may not exceed the
19 amount that is calculated by multiplying the amount that the individual may
20 deduct under section 225 of the Internal Revenue Code in effect for federal purposes
21 on the individual's federal income tax return by a fraction the numerator of which is
22 the individual's qualified overtime compensation that is taxable by this state and
23 the denominator of which is the individual's total qualified overtime compensation.

24 c. Notwithstanding section 225 (g) of the Internal Revenue Code, for taxable

1 years beginning after December 31, 2028, a claimant may claim the subtraction
2 under this subdivision as if section 225 (g) of the Internal Revenue Code did not
3 prohibit the claimant from deducting an amount on the claimant's federal income
4 tax return for taxable years beginning after December 31, 2028.

5 d. In this subdivision, "qualified overtime compensation" has the meaning
6 given in section 225 (c) of the Internal Revenue Code in effect for federal purposes.

7 **SECTION 5.** 71.52 (6) of the statutes is amended to read:

8 71.52 (6) "Income" means the sum of Wisconsin adjusted gross income and
9 the following amounts, to the extent not included in Wisconsin adjusted gross
10 income: maintenance payments (except foster care maintenance and
11 supplementary payments excludable under section 131 of the internal revenue
12 code), support money, cash public assistance (not including credit granted under
13 this subchapter and amounts under s. 46.27, 2017 stats.), cash benefits paid by
14 counties under s. 59.53 (21), the gross amount of any pension or annuity (including
15 railroad retirement benefits, all payments received under the federal social security
16 act and veterans disability pensions), nontaxable interest received from the federal
17 government or any of its instrumentalities, nontaxable interest received on state or
18 municipal bonds, worker's compensation, unemployment insurance, the gross
19 amount of "loss of time" insurance, compensation and other cash benefits received
20 from the United States for past or present service in the armed forces, scholarship
21 and fellowship gifts or income, capital gains, gain on the sale of a personal residence
22 excluded under section 121 of the internal revenue code, dividends, income of a
23 nonresident or part-year resident who is married to a full-year resident, housing
24 allowances provided to members of the clergy, the amount by which a resident

1 manager's rent is reduced, nontaxable income of an American Indian, any amount
2 subtracted under s. 71.05 (6) (b) 60. or 61., nontaxable income from sources outside
3 this state and nontaxable deferred compensation. Intangible drilling costs,
4 depletion allowances and depreciation, including first-year depreciation allowances
5 under section 179 of the internal revenue code, amortization, contributions to
6 individual retirement accounts under section 219 of the internal revenue code,
7 contributions to Keogh plans, net operating loss carry-backs and carry-forwards,
8 capital loss carry-forwards, and disqualified losses deducted in determining
9 Wisconsin adjusted gross income shall be added to "income". "Income" does not
10 include gifts from natural persons, cash reimbursement payments made under
11 title XX of the federal social security act, surplus food or other relief in kind
12 supplied by a governmental agency, the gain on the sale of a personal residence
13 deferred under section 1034 of the internal revenue code or nonrecognized gain
14 from involuntary conversions under section 1033 of the internal revenue code.
15 Amounts not included in adjusted gross income but added to "income" under this
16 subsection in a previous year and repaid may be subtracted from income for the
17 year during which they are repaid. Scholarship and fellowship gifts or income that
18 are included in Wisconsin adjusted gross income and that were added to household
19 income for purposes of determining the credit under this subchapter in a previous
20 year may be subtracted from income for the current year in determining the credit
21 under this subchapter. A marital property agreement or unilateral statement
22 under ch. 766 has no effect in computing "income" for a person whose homestead is
23 not the same as the homestead of that person's spouse.

24 **SECTION 6.** 115.437 (1) of the statutes is amended to read:

1 115.437 (1) In this section, “number of pupils enrolled” has the meaning given
2 in s. 121.90 (1) (intro.) and includes 40 percent of the summer enrollment. “Number
3 of pupils enrolled” does not include pupils described in the exception under s.
4 121.90 (1) (f) (g).

5 **SECTION 7.** 121.07 (7) (b) of the statutes is amended to read:

6 121.07 (7) (b) The “secondary guaranteed valuation per member” is an
7 amount, rounded to the next lower dollar, that, after subtraction of payments under
8 ss. 121.09, 121.105 (5), and 121.85 (6) (b) 2. and 3. and (c), fully distributes an
9 amount equal to the amount remaining in the appropriation under s. 20.255 (2)
10 (ac).

11 **SECTION 8.** 121.105 (title) of the statutes is amended to read:

12 **121.105 (title) Special adjustment aids and per pupil state aid.**

13 **SECTION 9.** 121.105 (1) of the statutes is amended to read:

14 121.105 (1) In this section, “state aid” means the sum of the payments
15 provided to a school district under ~~this section~~ subs. (2) to (4) and ss. 121.08, 121.85,
16 and 121.86.

17 **SECTION 10.** 121.105 (5) of the statutes is created to read:

18 121.105 (5) (a) In this subsection, “number of pupils enrolled” has the
19 meaning given in s. 121.90 (1) (intro.) and includes all of the following:

20 1. Forty percent of the summer enrollment.

21 2. Pupils described in the exception under s. 121.90 (1) (g).

22 (b) Beginning in the 2026-27 school year, from the appropriation under s.
23 20.255 (2) (ac), the department shall annually distribute a total of \$302,500,000 to
24 school districts under par. (c).

1 (c) Annually, the department shall pay to each school district the following
2 amounts:

3 1. An amount equal to the average of the number of pupils enrolled in the
4 school district in the previous 3 school years multiplied by an amount determined
5 as follows:

6 a. Calculate 25 percent of the total amount to be distributed under par. (b) for
7 the current school year.

8 b. Divide the amount calculated under subd. 1. a. by the average number of
9 pupils enrolled statewide in the previous 3 school years.

10 2. An amount equal to the average of the number of pupils enrolled in the
11 school district in the current and 2 preceding school years multiplied by an amount
12 determined as follows:

13 a. Calculate 75 percent of the total amount to be distributed under par. (b) for
14 the current school year.

15 b. Divide the amount calculated under subd. 2. a. by the average number of
16 pupils enrolled statewide in the current and 2 preceding school years.

17 (d) 1. The department shall make the payment under par. (c) 1. on the 3rd
18 Monday of September.

19 2. The department shall pay the amount under par. (c) 2. in 3 equal
20 installments. The department shall pay the 1st installment on the 1st Monday of
21 December, the 2nd installment on the 4th Monday of March, and the 3rd
22 installment on the 3rd Monday of June.

23 **SECTION 9137. Nonstatutory provisions; Revenue.**

24 (1) SURPLUS REFUND PAYMENTS.

1 (a) Subject to the limitations and conditions under this subsection, a taxpayer
2 who is an individual and who filed a Wisconsin individual income tax return for the
3 taxpayer's taxable year beginning after December 31, 2023, and before January 1,
4 2025, is eligible to receive a payment that is equal to \$600 for married persons who
5 filed a joint return for that taxable year and \$300 for all other individuals.

6 (b) The payment under par. (a) may not exceed the taxpayer's net income tax
7 liability under ch. 71 for the taxpayer's taxable year beginning after December 31,
8 2023, and before January 1, 2025.

9 (c) No payment under par. (a) may be paid to a taxpayer who is a dependent,
10 as defined in 26 USC 152, of another taxpayer for the taxable year beginning after
11 December 31, 2023, and before January 1, 2025.

12 (d) Notwithstanding par. (c), in the case of a married couple who filed a joint
13 return in the taxable year beginning after December 31, 2023, and before January
14 1, 2025, if a spouse is claimed as a dependent on another taxpayer's return for that
15 taxable year, the dollar amount under par. (a) is reduced by \$300 for each spouse
16 claimed as a dependent.

17 (e) No payment under par. (a) may be paid to the estate of a deceased taxpayer.

18 (f) Notwithstanding par. (e), in the case of a married couple who filed a joint
19 return in the taxable year beginning after December 31, 2023, and before January
20 1, 2025, if one spouse is deceased, the surviving spouse shall receive the full amount
21 of the payment under par. (a) to which the married couple is eligible to receive
22 under this subsection.

23 (g) In the case of a taxpayer who filed an individual income tax return for the
24 taxpayer's taxable year beginning after December 31, 2023, and before January 1,

1 2025, as a part-year resident or nonresident of this state, no payment under par. (a)
2 may be paid to the taxpayer unless at least 90 percent of the taxpayer's total income
3 for that taxable year is taxable by this state as provided in s. 71.04.

4 (h) The department of revenue shall identify the taxpayers who are eligible to
5 receive a payment under par. (a) and the amount of payment due each taxpayer.
6 The department of revenue shall certify the allowable amount of the payment to the
7 department of administration for payment by check, share draft, or other draft
8 drawn from the appropriation account under s. 20.835 (2) (cd). The department of
9 administration shall issue the payments under this paragraph no later than
10 September 15, 2026.

11 (i) The department of revenue shall establish procedures for taxpayers who do
12 not receive a payment or who receive less than the full amount for which they are
13 eligible under this subsection to file a claim for payment and shall establish a portal
14 on its website for filing claims. No claim for payment under this paragraph may be
15 filed after December 15, 2026.

16 (j) Section 71.80 (3) and (3m), as it applies to income tax refunds, applies to a
17 payment under this subsection. The department of revenue may enforce the
18 payment under this subsection and may take any action, conduct any proceeding,
19 and proceed as it is authorized with respect to taxes under ch. 71. The income tax
20 provisions in ch. 71 relating to assessments, refunds, appeals, collection, interest,
21 and penalties apply to the payments under this subsection.

22 **SECTION 9234. Fiscal changes; Public Instruction.**

23 (1) SPECIAL EDUCATION AND SCHOOL AGE PARENTS PROGRAM. In the schedule
24 under s. 20.005 (3) for the appropriation to the department of public instruction

1 under s. 20.255 (2) (b), the dollar amount for fiscal year 2025-26 is increased by
2 \$85,000,000 and the dollar amount for fiscal year 2026-27 is increased by
3 \$230,000,000.

4 (2) PER PUPIL STATE AID. In the schedule under s. 20.005 (3) for the
5 appropriation to the department of public instruction under s. 20.255 (2) (ac), the
6 dollar amount for fiscal year 2026-27 is increased by \$302,500,000 for per pupil aid
7 under s. 121.105 (5).

8 **SECTION 9337. Initial applicability; Revenue.**

9 (1) DEFINITION OF INCOME FOR HOMESTEAD CREDIT. The treatment of s. 71.52
10 (6) first applies to claims filed for taxable years beginning after December 31, 2025.

11 (END)