

FOCUS

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In brief

New figures from the U.S. Census Bureau show that, for fiscal year 2002, Wisconsin ranked fifth in total state-local taxes as a share of income. This was down one notch from fourth in fiscal 2000. While our property tax rank rose from eleventh to ninth, our individual income taxes fell from fifth to tenth.

Capitol notes

■ With insufficient votes in the state senate, the legislature will not approve a proposed constitutional limit on state/local government spending this year. Expenditure growth would have been limited to 90% of a three-year rolling average increase in state personal income. Some exceptions were provided.

■ Kevin Reilly, currently chancellor of UW-Extension, will succeed Katharine Lyall as UW System president. Reilly, 54, holds a Ph.D. in English (Minnesota) and had prior experience in the State University of New York (SUNY) System.

■ Governor Jim Doyle (D) will not support the call of his education task force to increase sales taxes to cut school taxes. "I simply haven't seen the mechanism where you would get a dollar for dollar reduction in the property tax," he told the Green Bay Press-Gazette.

New fed figures show true tax ranks

How high are Wisconsin taxes? Depending on the politics of the source, our total state-local burden is purported to rank anywhere from second to 20th.

New figures from the U.S. Census Bureau cut through this confusion. They provide state-by-state statistics for 2001-02 ("fiscal year 2002"). This is the latest year reported by the federal government. Prior to that, rankings were based on 1999-2000 figures.

Ranking total taxes

The usual way to measure tax burden is to sum all state-local taxes and compare the result to personal income. By this measure, taxes here claimed 11.73% of income in fiscal 2002. Personal income includes salaries, interest, dividends, rental income and government payments.

□ *State ranks.* Compared to other states, Badger taxes were fifth highest in the nation—down one notch from 1999-2000. New York led with taxes claiming 13.08% of income, while Tennessee was last at 8.39%. Since the U.S. average was 10.40%, taxes here were 12.8% above that.

Among the four surrounding states, Minnesota had the largest tax burden at 11.31% of income, seventh

highest in the nation. With their taxes claiming either 10.13% or 10.38% of income, Iowa (24th), Michigan (25th) and Illinois (29th) all clustered in the middle of the states.

□ *Why little change in rank?* Between the last gasps of the economic boom in 1999-2000 and the 2000-01 recession, state-local tax burdens declined everywhere except for Wyoming and Louisiana. Yet, the change in Wisconsin's tax rank was small. Nationally, state-local taxes dropped from 11.21% to 10.40% of income. Here, they fell from 12.89% to 11.73%. In all the states shown below—whether high, medium or low in tax burden—state-local taxes took a smaller share of income in fiscal 2002 than in fiscal 2000.

There were several reasons for this. One was the recessionary drop in tax collections, particularly business-related taxes impacted by the manufacturing slump. Another was flush treasuries in the late 90's that enabled states both to increase spending and cut taxes.

Wisconsin expanded school aid, public assistance and health programs. In the 1999 state budget, income taxes were cut, effective in 2000 and 2001. The cuts were directed principally at middle- and low-income families. Because interstate comparisons usually relate taxes to income, it is also possible

New Census Figures Compare Total State-Local Taxes as Pct. of Personal Income
State Ranks, Tax Burdens and Size Relative to U.S., Fiscal 2000 and 2002

Rank	State by			Taxes as % Pers. Inc.			% +/- U.S.			
	'02	'00	Ch.	'02 Rk.	'02	'00	Pt. Ch.	'02	'00	Pt. Ch.
1	1	0	NY		13.08	14.10	-1.02	25.8	25.7	0.0
2	2	0	Maine		13.02	13.91	-0.89	25.2	24.0	1.2
5	4	-1	Wis.		11.73	12.89	-1.17	12.8	15.0	-2.2
7	7	0	Minn.		11.31	12.37	-1.06	8.8	10.3	-1.5
24	22	-2	Iowa		10.38	11.10	-0.72	-0.2	-1.0	0.8
25	18	-7	Mich.		10.38	11.38	-1.00	-0.2	1.5	-1.7
29	32	3	Ill.		10.13	10.78	-0.65	-2.6	-3.9	1.3
49	50	1	NH		8.46	8.80	-0.34	-18.6	-21.5	2.9
50	49	-1	Tenn.		8.39	8.81	-0.42	-19.3	-21.4	2.1

that tax burdens fell due to income growth.

Burdens vary by tax

Changes in burden were not uniform across all taxes (see table). Property taxes grew from 3.95% of income in fiscal 2000 to 4.07% in 2002. Of the other taxes, only tobacco taxes rose relative to income. Hard hit by the recession, corporate income taxes fell from 0.40% to 0.28% of income.

This does not mean, however, that our rankings on various taxes also dropped. In fact, our relative position rose for: property (11th to 9th); corporate income (24th to 23rd); sales (31st to 25th); alcohol (37th to 35th); and tobacco (17th to 6th) taxes.

Of particular note is the sales tax. Historically, ours has been low relative to other states. However, it was only 3.7% below the national norm in 2002. Part of the reason is increased use of the sales tax by counties.

Individual income taxes moved in the opposite direction. In 1999-2000, they were at a modern high be-

cause of a surge in employment and salaries, stock market gains and unlegislated income tax increases due to the state's failure to update tax laws for inflation. The 2000-01 tax reforms returned the income tax to 1990 pre-boom levels. The state's highest tax in 2000, the income tax fell from 4.14% of income in 2000 to 3.13% in 2002. Consequently, Wisconsin's income tax ranking fell from fifth to tenth.

Regardless, Wisconsin's two highest taxes remain those on property (27.0% above the U.S. average) and individual income (34.5% above). Motor fuel and tobacco taxes exceed national norms by 58.6% and 82.6%, respectively, but claim smaller shares of income.

Why?

National politics and the policy choices that various states have made

help explain our high income and property taxes. Wisconsin fares poorly in competition for federal dollars. Likewise, we have chosen to make less use of fees and charges, e.g., tuition and vehicle fees, than other states. Along with above-average spending in several key areas, most notably education and transportation, these factors all push our taxes higher. Wisconsin's use of income and property taxes becomes even greater, because we rely less on sales taxes than other states. In short, Badger State taxes are high because of the spending choices we make, and the nontax revenues we forgo.

Beyond taxes . . .

If Wisconsin has high taxes, but makes less use of fees and federal dollars, including these nontax items in revenue comparisons will affect rankings. For example, if all revenues collected by state and local governments—but not federal aid—are compared, the "own-source" revenue rank for Wisconsin is 15th. Using this figure appropriately compares state-local revenues, but it is not a tax comparison as some claim.

Most State Taxes Claimed Less Income in 2002 Than in 2000
State Ranks, Tax Burdens and Size Relative to U.S., Fiscal 2000 and 2002

Rank			Tax	Wis. % Pers. Inc.			U.S. % Pers. Inc.			Wis. % +/- U.S.		
'02	'00	Ch.	Type	'02	'00	Pt. Ch.	'02	'00	Pt. Ch.	'02	'00	Pt. Ch.
5	4	-1	Total	11.73	12.89	-1.17	10.40	11.21	-0.82	12.8	15.0	-2.2
9	11	2	Property	4.07	3.95	0.12	3.21	3.20	0.00	27.0	23.5	3.6
10	5	-5	Income	3.13	4.14	-1.00	2.33	2.72	-0.39	34.5	52.1	-17.6
23	24	1	Corp. Inc.	0.28	0.40	-0.12	0.32	0.46	-0.14	-13.3	-13.3	0.0
25	31	6	Sales	2.47	2.57	-0.10	2.56	2.77	-0.20	-3.7	-7.1	3.4
11	9	-2	M. Fuel	0.60	0.64	-0.03	0.38	0.40	-0.02	58.6	60.1	-1.5
35	37	2	Alcohol	0.03	0.03	0.00	0.05	0.06	0.00	-45.7	-45.9	0.2
6	17	11	Tobacco	0.19	0.18	0.01	0.10	0.11	-0.01	82.6	62.5	20.1
25	28	3	Charges	3.06	3.00	0.07	2.91	2.87	0.04	5.2	4.3	0.9

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