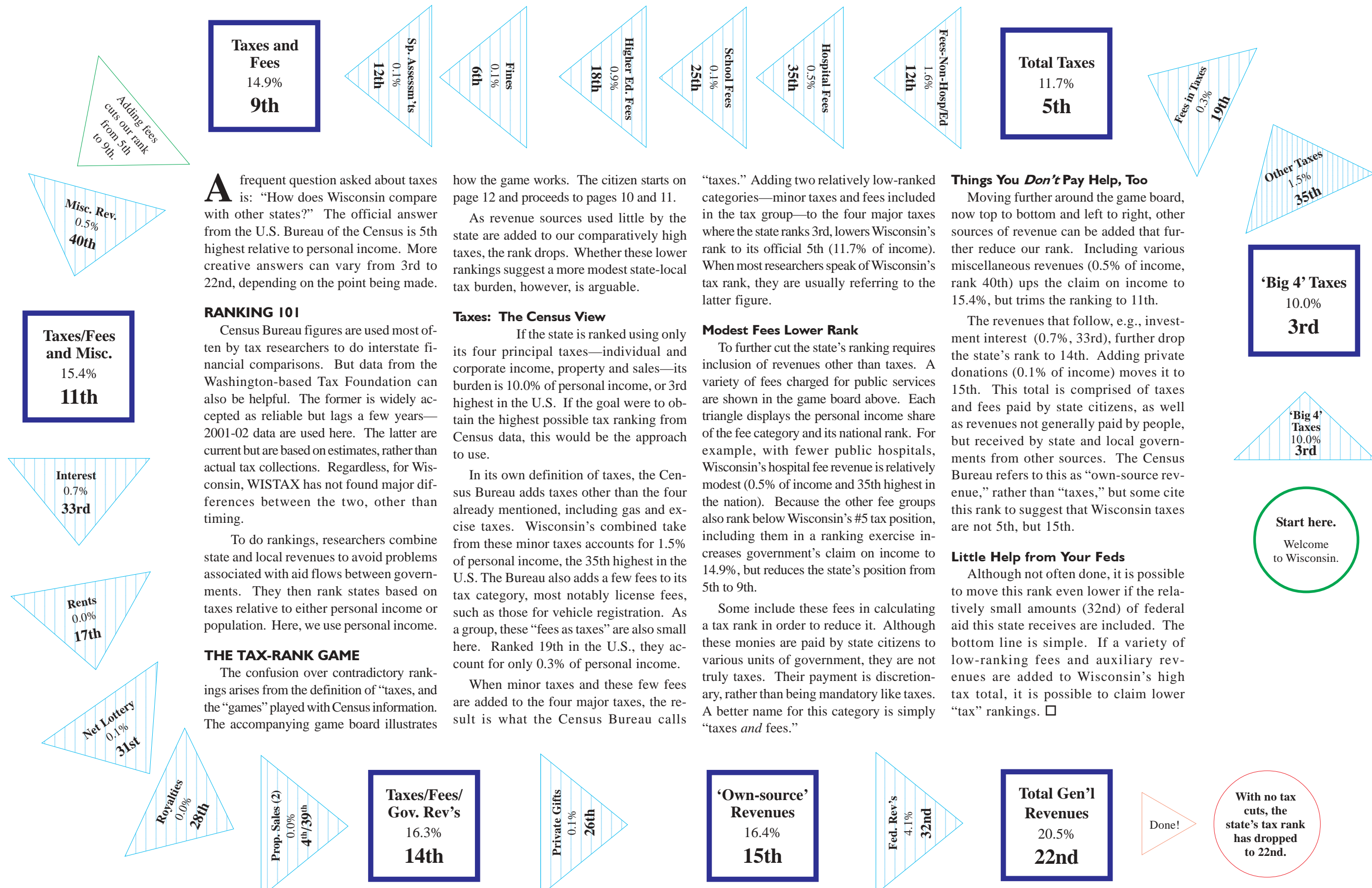


# The Tax-Rank Game



A frequent question asked about taxes is: “How does Wisconsin compare with other states?” The official answer from the U.S. Bureau of the Census is 5th highest relative to personal income. More creative answers can vary from 3rd to 22nd, depending on the point being made.

## RANKING 101

Census Bureau figures are used most often by tax researchers to do interstate financial comparisons. But data from the Washington-based Tax Foundation can also be helpful. The former is widely accepted as reliable but lags a few years—2001-02 data are used here. The latter are current but are based on estimates, rather than actual tax collections. Regardless, for Wisconsin, WISTAX has not found major differences between the two, other than timing.

To do rankings, researchers combine state and local revenues to avoid problems associated with aid flows between governments. They then rank states based on taxes relative to either personal income or population. Here, we use personal income.

## THE TAX-RANK GAME

The confusion over contradictory rankings arises from the definition of “taxes, and the “games” played with Census information. The accompanying game board illustrates

how the game works. The citizen starts on page 12 and proceeds to pages 10 and 11.

As revenue sources used little by the state are added to our comparatively high taxes, the rank drops. Whether these lower rankings suggest a more modest state-local tax burden, however, is arguable.

## Taxes: The Census View

If the state is ranked using only its four principal taxes—individual and corporate income, property and sales—its burden is 10.0% of personal income, or 3rd highest in the U.S. If the goal were to obtain the highest possible tax ranking from Census data, this would be the approach to use.

In its own definition of taxes, the Census Bureau adds taxes other than the four already mentioned, including gas and excise taxes. Wisconsin’s combined take from these minor taxes accounts for 1.5% of personal income, the 35th highest in the U.S. The Bureau also adds a few fees to its tax category, most notably license fees, such as those for vehicle registration. As a group, these “fees as taxes” are also small here. Ranked 19th in the U.S., they account for only 0.3% of personal income.

When minor taxes and these few fees are added to the four major taxes, the result is what the Census Bureau calls

“taxes.” Adding two relatively low-ranked categories—minor taxes and fees included in the tax group—to the four major taxes where the state ranks 3rd, lowers Wisconsin’s rank to its official 5th (11.7% of income). When most researchers speak of Wisconsin’s tax rank, they are usually referring to the latter figure.

## Modest Fees Lower Rank

To further cut the state’s ranking requires inclusion of revenues other than taxes. A variety of fees charged for public services are shown in the game board above. Each triangle displays the personal income share of the fee category and its national rank. For example, with fewer public hospitals, Wisconsin’s hospital fee revenue is relatively modest (0.5% of income and 35th highest in the nation). Because the other fee groups also rank below Wisconsin’s #5 tax position, including them in a ranking exercise increases government’s claim on income to 14.9%, but reduces the state’s position from 5th to 9th.

Some include these fees in calculating a tax rank in order to reduce it. Although these monies are paid by state citizens to various units of government, they are not truly taxes. Their payment is discretionary, rather than being mandatory like taxes. A better name for this category is simply “taxes and fees.”

## Things You *Don't* Pay Help, Too

Moving further around the game board, now top to bottom and left to right, other sources of revenue can be added that further reduce our rank. Including various miscellaneous revenues (0.5% of income, rank 40th) ups the claim on income to 15.4%, but trims the ranking to 11th.

The revenues that follow, e.g., investment interest (0.7%, 33rd), further drop the state’s rank to 14th. Adding private donations (0.1% of income) moves it to 15th. This total is comprised of taxes and fees paid by state citizens, as well as revenues not generally paid by people, but received by state and local governments from other sources. The Census Bureau refers to this as “own-source revenue,” rather than “taxes,” but some cite this rank to suggest that Wisconsin taxes are not 5th, but 15th.

## Little Help from Your Feds

Although not often done, it is possible to move this rank even lower if the relatively small amounts (32nd) of federal aid this state receives are included. The bottom line is simple. If a variety of low-ranking fees and auxiliary revenues are added to Wisconsin’s high tax total, it is possible to claim lower “tax” rankings. □