

# Why Wisconsin Taxes Are High

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## Executive Summary

*Wisconsin residents paid \$2.4 billion more in state and local taxes than the national average in 2000. Put another way, our state-local tax load claimed 12.9% of personal income, fourth highest in the country. The Badger State has been among the five most-taxed states in every year since 1991.*

*Many reasons are suggested for Wisconsin's high tax burden – a relative lack of federal aid, below-average incomes and so on. But new research from the nonpartisan Wisconsin Taxpayers Alliance (WISTAX) finds that 70%, or \$1.7 billion, of the \$2.4 billion difference in taxes between Wisconsin and the U.S. average is due to above-average levels of public spending, with three areas accounting for most of the difference.*

*The most significant of these is K-12 education. It accounted for \$780 million, or almost one-third, of the \$2.4 billion tax difference. Spending on streets and roads, particularly at the local level, was the second largest reason for higher taxes here, representing 28%, or about \$675 million, of the tax differential. Another 13%, or about \$310 million, of the tax gap was due to higher education. Part of this amount was traced to a more extensive system of higher education and part to lower-than-average student tuition and fees.*

*A closer look at spending on K-12 education and roads, which together account for 60%, or almost \$1.5 billion, of Wisconsin's \$2.4 billion in higher taxes, shows that specific features of each are particularly significant. For schools, the principal "drivers" of spending were above-average employee benefits and below-average student-teacher ratios. Together, these two factors accounted for \$550m, or almost one-quarter, of the higher state-local tax burden. Capital expenditures and debt service costs, especially for recent building projects, represented another \$200 million of the tax difference.*

*For roads, the freezing and thawing of a northern climate is a factor, but road spending is also 40% higher in Wisconsin because the state has more road miles per capita than all but 16 states – and more paved road miles per capita than all but five states. Road spending at the local level is particularly significant, as Wisconsin ranked 36<sup>th</sup> on state highway spending per capita, but third on local spending.*

*Although state-local expenditures explain most of why this is a high-tax state, "revenue mix" is also a factor. By relying less on other sources of public revenues, Wisconsin is forced to collect more in taxes to fund public budgets.*

*Receipt of fewer federal dollars than the average state was responsible for \$340 million, or about 14%, of the tax difference between Wisconsin and the nation. Less use of user charges and fees, other than college tuition, explained 8%, or \$190 million, of the gap. And, smaller miscellaneous revenues, such as special assessments and interest earnings, accounted for 7.5%, or \$180 million.*

*Often overlooked, but also critical to understanding Wisconsin's high tax burden, is its rather unique approach to public finance that uses the state to do much of the taxing, while leaving much of the service delivery to local governments and school districts. Thus, in 2000, the state collected 64.5% of all Wisconsin's "own-source" revenues but accounted for only 39.9% of state-local spending.*

*Separate statistical analyses of both national and state data produce the same explanation: The more local governments rely on outside state and federal aid to fund their services, the more they spend per capita. Hence, the great Wisconsin contradiction: Almost two-thirds of state general fund expenditures are aimed at relieving property taxes, but levies here remain 23% above the national average.*

*Recent spending and revenue data have much to say about Wisconsin's high-tax status. But, they don't tell the whole story. Wisconsin's early politics and culture also help understand the state's current preference for relatively high-levels of taxes and spending. Values brought by the state's Yankee founders and reinforced by many of its northern European immigrants led to an early commitment to public funding of K-12 and higher education and a preference for state-imposed taxes, such as the income tax. And the state's agricultural roots and early affection for publicly-funded infrastructure led to a long-standing commitment to an extensive network of local and state roads.*