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NEWS

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“Forgotten Taxes” Add Up to Big Revenues
WISTAX Looks at Excise and Other Small Taxes

MADISON—Wisconsin residents paid an average of more than \$500 per person last year in mostly small, “hidden” taxes that are often misunderstood or go virtually unnoticed. “Forgotten Taxes,” a new report by the Wisconsin Taxpayers Alliance (WISTAX), examines these, as well as telecommunications, utility, real estate, and other small taxes that together generated more than \$500 million in 2006.

Did you ever wonder what that Federal Universal Service Fee is on your phone bill? The federal government charges phone companies a tax, the revenues of which provide affordable service to designated groups. Last year, revenues from the fee came to \$7.3 billion nationally. Wisconsin’s share (\$161 million in 2005) went to low-income individuals (\$8.8 million), schools and libraries (\$21.0 million), rural health care providers (\$0.9 million), and phone users in high-cost areas (\$130.2 million), according to WISTAX, a nonprofit, nonpartisan public-policy research organization.

A smaller “forgotten tax” is the charge on phone bills for 911 emergency telephone system, or Enhanced 911, levied by the county. Counties larger than 500,000 people are limited to 25¢ per person, and smaller counties 40¢ per person (with the exception of start-up service of Enhanced 911 in small counties, which allows for a \$1 per person charge for up to three years). The wireless version for Enhanced 911 is 83¢ per month on cell phone bills.

Utility customers—residential, commercial, and industrial—pay a fee, called a “Non-taxable Customer Charge” on their energy bills. Fees collected help fund the Utility Public Benefits Fund (UPBF), operated by the state Department of Administration. The UPBF oversees energy conservation and low-income assistance programs in Wisconsin. This tax raised \$57.7 million in 2006, but on individual residential bills the fee cannot exceed \$2.97 per month or 3% of the total bill, whichever is lower.

The UPBF also collects a \$67.2 million annual transfer directly from utility companies to perform these conservation and public assistance tasks that were once directed by the utilities for “the common good.” Some revenue from the UPBF has been transferred to the state general fund in recent years to

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balance the budget. The first such transfer was an \$8.4 million shift in 2003, and through 2006, \$65.8 million was shifted from UPBF to the general fund.

Increases in three “hidden taxes” are pending in the 2007-09 state budget. First, the real estate transfer fee, currently at 0.30% of a home’s sale price, would double to 0.60%. In 2006, this tax generated \$100.7 million. The sale of a median-value home in Wisconsin (\$153,525 in 2006) required a transfer fee of \$461. Though significant, this tax is often lost among much larger closing costs and realtors’ commissions.

Another proposed increase is a new tax on oil companies that will collect 2.5% of their gasoline sales. Created as a tax on corporate profits, the new oil tax is not intended to be passed along to consumers. However, many observers believe this cannot be enforced. Potential revenues are \$272 million over two years.

The third proposed increase would raise the cigarette tax from 77¢ to \$2.02 per pack, giving Wisconsin the fourth highest rate in the U.S. The current tax raised \$301.5 million in 2006, considerably higher than the liquor and wine tax which raised \$41.0 million.

Excise taxes in general are often “forgotten” because they are built into the final sale price of items, and used in addition to or in lieu of sales taxes. As an example, a gallon of gasoline in Wisconsin that costs \$2.25 includes a federal gas tax of 18.4¢ and a state excise tax of 32.9¢. Federal excise taxes totalled \$1.38 billion in 2006, and state taxes on alcohol, tobacco, and gas raised \$1.34 billion.

Revenues from Wisconsin’s gas tax go to the state’s transportation fund, with a small portion going to the Petroleum Environmental Cleanup Fund. However, in the past two biennia, \$1.1 billion has been transferred from the transportation fund to the general fund to help balance the budget.

In addition to state and federal charges, some “hidden” taxes are local-options that municipalities may collect. The “room tax” on rental of hotel rooms is one of them, though limited to no more than 8% of the rental price. At least 70% of the revenues must be used for “tourism promotion and development.” In 2004 (the most recent year for which figures were available), 203 Wisconsin municipalities raised \$41.0 million in room taxes.

The Premier Resort Area Tax (PRAT), another local-option sales tax, collects 0.5% on purchases from “tourism-related” retailers. Lake Delton, Wisconsin Dells, and Bayfield generated \$2.1 million via the PRAT in calendar 2005. Eagle River became the fourth community to levy the tax in 2006.

Further details of the report are available from WISTAX, now celebrating its 75th year. For a free copy of *The Wisconsin Taxpayer*, “Forgotten Taxes,” write WISTAX, 401 North Lawn Ave., Madison, WI 53704-5033; e-mail wistax@wistax.org; visit www.wistax.org; or phone 608.241.9789. □

(Editor’s Note: An electronic version of this release is available at www.wistax.org.)