



Wisconsin Taxpayers Alliance

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NEWS

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November 27, 2007

State Sales Tax Lagging Could Have Negative Budget Implications

MADISON—While corporate income tax collections jumped 14.1% last year and individual income taxes were up 7.0%, Wisconsin sales taxes rose 0.8%, according to a new report from the Wisconsin Taxpayers Alliance (WISTAX). Celebrating its 75th anniversary, the nonprofit WISTAX keeps Wisconsin citizens informed through nonpartisan research.

WISTAX researchers cited several reasons for the lagging sales tax collections. First, rising internet sales are likely a major factor. A 2003 University of Tennessee study projected increased internet sales would result in state losses of between 8.5% and 13.2% of sales tax revenues by 2008. Second, oil prices nearing \$100 per barrel have left consumers with less discretionary income.

Finally, the weakened housing sector has impacted sales taxes. With building permits down significantly, there are fewer purchases of appliances, furniture, and other items a homebuilder or homeowner needs. Stagnant or declining home prices also make individuals feel less wealthy which can translate into less borrowing and less buying.

The new report notes that a stagnant sales tax could have implications for the state budget. The sales tax yields more than \$4 billion, or one-third of all state general fund taxes. Despite the fact that sales taxes have increased more than 3.6% only once in the last seven years, the 2007-09 budget counts on sales tax growth of 3.6% this year and 3.9% next year, or \$472 million in new sales tax money over the biennium. If last year's 0.8% increase were to repeat this year and next, the state would be short \$372.1 million by mid-2009, WISTAX said. With a "paper balance" of less than \$5 million, a deficit of nearly \$370 million would loom.

For a free copy of *Focus*, "*The incredible shrinking sales tax*," contact WISTAX by e-mail at wistax@wistax.org; by phone at 608-241-9789; or by mail at 401 North Lawn Avenue, Madison, WI 53704. WISTAX celebrates 75 years of public policy research and citizen education. □

(Editors' Note: An electronic version of this release is available at www.wistax.org.)

this year. The sales tax is expected to yield \$4.31b. But, the new 2007-09 budget is counting on sales tax growth of 3.6% this year and 3.9% next year—a questionable projection given that collections growth slid for the past four straight years (from 4.3% to 3.6% to 2.2% to 0.8%). If last year's 0.8% increase were to repeat this year and next, the state would be short \$372.1m by mid-2009, and a deficit of almost \$370m would loom.