



Wisconsin Taxpayers Alliance

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NEWS

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Wisconsin Income Taxes Rank Among Highest in Nation WISTAX Offers Analysis of Wisconsin's Individual Income Tax

MADISON—Wisconsin's income tax claimed 3.3% of personal income in 2007, making it the 10th highest nationally among state income taxes. When compared on a per capita basis, income taxes averaged \$1,137 per person, 13th highest nationally, and ahead of all neighboring states except Minnesota. These facts come from a new report from the Wisconsin Taxpayers Alliance (WISTAX) titled "Wisconsin's 'Big Two': Income and Property Taxes."

According to WISTAX researchers, Wisconsin's reliance on the income tax, compared to other taxes, was also higher than most states. In 2007, 43.7% of state tax revenues came from the income tax, the 12th highest percentage in the nation. Though relatively high, this rank is lower than in the 1990s and early 2000s when Wisconsin was in the top 10.

Relying heavily on income tax collections compounds the state's challenges in projecting annual tax collections, WISTAX said. Sensitive to economic conditions, the income tax can provide unexpected revenues in boom times and significant shortfalls in downturns. As is now the case, when collections fall below projections, the state is faced with a budget gap.

During the economic "boom" of the 1990s, economic growth, low unemployment, and a soaring stock market led to a surge in tax collections from 1992 to 1998, providing a steady revenue stream for the state. However, when the economy slowed, revenues declined. During recessionary periods, a state like Wisconsin, that relies on income taxes to fulfill its budget commitments, is forced to make policy or spending adjustments to compensate for lower than expected revenues. Examples include a tax surcharge passed in 1983 and recent budget repair bills used to cover subpar revenue growth, WISTAX said.

The WISTAX study also profiles 2007 income tax collections by filers' income categories: "low" (less than \$30,000), "middle" (\$30,000-\$100,000), and "high" (more than \$100,000). Low-income filers generated the smallest amount of taxable income (\$16.3 billion) and paid the least amount in state income taxes (\$285 million, 4.6% of total collected). Middle-income filers had \$66.4 billion in income (48.3% of state total) and paid \$2.8 billion (46.3% of total collected) in income taxes. High-income filers reported nearly 40% of the state's total income and paid over \$3 billion (49.1%) in taxes.

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The Wisconsin Taxpayers Alliance, founded in 1932, is the state's oldest and most respected private government-research organization. Through its research, publications, civic lectures and school talks, WISTAX aims to improve Wisconsin government through citizen education. Nonprofit, nonpartisan and independently funded, WISTAX is not affiliated with any group—national, state or local—and receives no government support.

In terms of average tax rate paid, filers in the low-income category paid an average rate of 1.75%, while middle-income filers paid 4.3%. Those in the high-income category paid the highest average rate at 5.52%. Filers at the very top (\$200,000 or more) paid an average rate of 5.83%. According to WISTAX researchers, rising rates are due partly to statutory tax rates that rise with income but also to Wisconsin's multiple tax credits, deductions, and exemptions available for taxpayers. These offsets are particularly available for low-income filers, as a 2007 study found Wisconsin to be the 10th most generous state for low-income filers, WISTAX said.

Changes in the 2009-11 biennial state budget affects these statistics. According to WISTAX, through 2008 Wisconsin excluded 60% of capital gains that were held at least one year. Changes in the budget reduced the capital gains exclusion to 30%, keeping Wisconsin one of six states that exempts a portion of capital gains. As of 2008, 14 states taxed gains at 15%, the same as the federal government, while another 17 states taxed them similarly to the federal government but with slight variation.

WISTAX researchers also noted changes to the top tax rate and deduction for college savings accounts were included in the budget. Beginning in 2009, the top rate for the state's highest earners will increase from 6.75% to 7.75%. Effective in 2010, college savings account deductions will be available for parents who designate contributions for their child but do not claim the child as a dependent.

A free copy of *The Wisconsin Taxpayer* titled "Wisconsin's 'Big Two': Income and Property Taxes" is available by contacting WISTAX at 401 North Lawn Avenue., Madison, WI 53704-5033; e-mailing wistax@wistax.org; visiting www.wistax.org; or phoning 608.241.9789.

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