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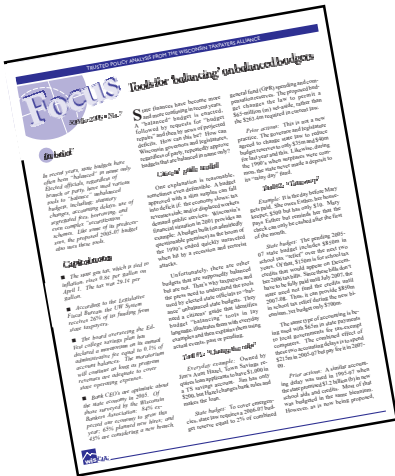
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Info Request



A monthly review of Wisconsin government, taxes and public finance

The Wisconsin Taxpayer



Also in this issue:

Note of Appreciation: Beulah Poulter

WISTAX Focus: Student-Teacher Counts; A Gathering Storm?

Wisconsin's Total Taxes: 2005

IN BRIEF

Due primarily to a strengthening economy, Wisconsin's total taxes rose 1.4 percentage points in 2005 to 32.0% of personal income. This was the largest increase since the 1.5-point jump in 1994. Among the other findings of this study of Wisconsin's total taxes are:

- A growing economy led to double-digit increases in both federal and state corporate income tax collections in 2005.
- Rising state incomes resulted in large jumps in federal and state individual income tax revenues.
- A nearly 20% increase in state unemployment tax revenues in 2005 resulted from higher rates and a jump in taxable wages reported by employers.
- Sales tax growth was modest and may have been hindered by increasing use of the Internet for purchases.
- Net local property tax levies rose 6.3% in 2005. At 4.3% of personal income, 2005 net levies were at their highest level in 10 years.

Note of Appreciation

■ **Special Thanks to Beulah Poulter on Her Retirement.** Although several men headed the Wisconsin Taxpayers Alliance over the past 40 years, perhaps no one had a more ongoing impact on the quality and accuracy of our work than a woman. Few people outside the office knew her. Humble, self-effacing and dedicated beyond description, Beulah Poulter avoided the spotlight.

But those of us who worked with her know that, from the time she arrived at our former downtown Madison office in 1966, Beulah was indispensable. And she remained so over four decades. Hired originally as a librarian, Beulah did everything. She was our editor without peer, the principal author of our Legislative Service and, later, a valued contributor to our *Wisconsin Taxpayer* magazine. She was our printing expert, unofficial office social chair, crack budget analyst and, officially, Operations Director.

With her quick mind, attention to detail and unsurpassed dedication, there was little Beulah couldn't or wouldn't do. No matter how challenging or mundane the task, no matter how early or late the hour, Beulah made us look good, and she truly helped make Wisconsin government better.

With Beulah's recent retirement, we at the Alliance have lost our "right arm" and our institutional memory. We will miss her indefatigable spirit, ready smile and infectious laugh. At the WTA, Beulah, you never threw a gutter ball—only strikes. Good luck and God bless.

—Todd A. Berry
President

WISTAX Focus

■ **Student-Teacher Counts.** Last year, 56% of all Wisconsin school districts lost students, according to "Counting kids and teachers" (*Focus* #23-05). Statewide, student numbers peaked in 2002-03 and have declined for two consecutive years. Staff numbers rose slightly in 2004-05, with the largest increases in various support positions.

■ **A Gathering Storm?** Politicians, especially incumbents, have reason to be nervous about 2006 elections. As detailed in "Badger politics: The gathering storm" (*Focus* #24-05), national issues such as gas prices, war and hurricane damage could take their toll. In Wisconsin, scandal has touched both parties and polls show citizens dissatisfied with the direction of the state. *Focus* is published by WISTAX 28 times annually. For subscription information, contact us at the address at right.

■ **Gifting to WISTAX.** Have you included WISTAX in your will or living trust? Your gift can cost you nothing during your lifetime—and will help WISTAX forever. Please contact Jo Egelhoff at 920-739-7975.

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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 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.

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Wisconsin's Total Taxes: 2005

In Wisconsin, federal, state and local taxes and fees paid rose 10.0% in 2005 to \$56.49 billion. The increase was the largest since the 11.3% jump in 1984. After several years of slow growth, a strengthening economy was one of the main reasons for the jump. Rising incomes led to large increases in both individual and corporate income tax collections at both the federal and state levels in 2005.

Wisconsin's state-local tax collections rose 6.2% in 2004-05 to \$21.54 billion. Federal collections from citizens and businesses in the state were up 12.5% to \$34.95 billion.

Total taxes claimed 32.0% of personal income in 2005, up from 30.6% the year before. Despite the jump, 2005 taxes as a share of income were the 5th lowest in the 1980-2005 period. They were lower in 1983 (31.9%), 2002 (31.9%), 2003 (30.5%) and 2004 (30.6%).

TRENDS

1980's and 1990's

From 1983 through 2000, Wisconsin's total tax burden measured as a share of personal income generally rose (see chart opposite). With the exception of the mild recession in the early 1990's, economic growth during these years was good. As a result of this and a state income tax system that was not indexed for inflation, tax collections, particularly income tax collections, rose rapidly. Total taxes paid by Wisconsinites climbed from 31.9% of income in 1983 to 36.7% in 2000.

Of the 4.8-percentage-point increase, nearly all (4.2 points) was due to rising fed-

eral taxes. Of the remainder, almost 0.6 percentage points were from rising state taxes and less than 0.1 points from local governments.

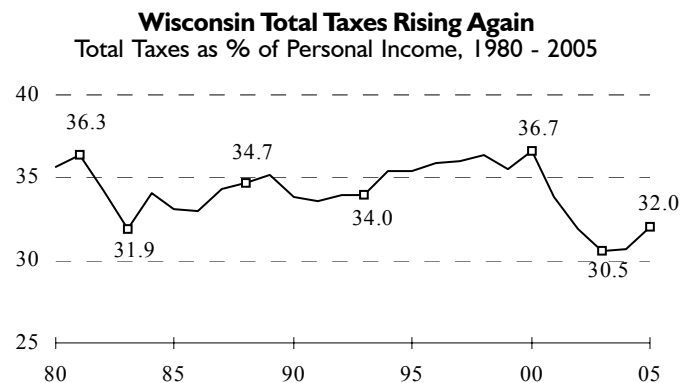
However, there were many subtrends within this 18-year period.

1983-88. From 1983 through 1988, federal, state and local taxes all rose at approximately the same rate (7.7% per year). However, taxes rose faster than incomes (5.9% per year) during these years, and the total tax burden rose from 31.9% to 34.7%.

1989-93. The next five years were characterized by rapid increases in local taxes. While personal income rose 6.3% per year during the period, local taxes climbed 8.3% annually. Much of the increase was due to rising property taxes, particularly school and technical college taxes. However, increasing use of a county sales tax was also a factor. Due to a growing number of counties adopting the half-cent local sales tax, revenues from this tax climbed from \$9.0 million in 1988 to \$116.6 million in 2003.

The mild recession during the early 1990's slowed federal and state tax rev-

Federal, state and local taxes paid by Wisconsinites rose 10.0% in 2005 to \$56.5 billion.



enues. From 1988 through 1993, federal taxes rose an average of 5.8% per year; state taxes climbed 4.7% annually. Both were less than the increases in personal income.

From 1993 through 2000, state tax revenues rose an average of 6.6% per year.

1994-2000. The 1994-2000 period was characterized by a large school property tax buydown in 1996-97 and rapidly rising federal and state income taxes spurred by a strong economy. During these years, local taxes rose an average of 2.7% per year. While most of the yearly increases were in the 3.0% to 8.0% range, a 6.0% decline in 1997 reduced the overall average.

Beginning in 1997, the state committed to providing, on average, two-thirds of the state-local cost of public education. As a result of \$1.2 billion of additional school aids that year, school levies declined more than 16%. The drop was partially offset by increases in other local property taxes and rising county sales taxes.

The two-thirds commitment was funded with increasing state tax revenues. From 1993 through 2000, state taxes rose an average of 6.6% annually, a full percentage point more than the yearly increase in personal income (5.6%).

State tax revenues rose rapidly during these years for several reasons. First, as mentioned, was the growing economy. Second, gains from a booming stock market led to strong growth in income and sales taxes. Finally, during most of these years, Wisconsin's income tax brackets and stan-

dard deductions were not "indexed," or adjusted, for inflation. Thus, "bracket creep" led to additional tax revenues as incomes rose. During these years, state individual income tax revenues climbed 8.1% per year. State income tax brackets and deductions were indexed for inflation beginning with the 1999 tax year.

The 1994-2000 period was characterized by a large property tax buydown in 1997 and rapidly rising federal and state income taxes fueled by a strong economy.

Federal taxes increased the most during these years, rising an average of 7.6% per year. Federal individual (8.7% per year) and corporate (8.4% per year) income taxes were the main drivers. Individual income tax revenues were strong due in part to large increases in capital gains taxes (18.5% per year).

2000's

The 2001-05 period was characterized by:

- federal and state income tax cuts;
- several years of slow economic growth; and
- a strengthening economy in 2004 and 2005.

2001-2003. Significant reductions in income taxes were implemented at both the

Summary of Tax Collections by Source

Amounts, Average Annual Changes and % of Personal Income (\$ in Millions), 1980 - 2005

Source	1980	1990	2000	2005	Annual Avg. % Chg.			Taxes as % of Pers. Inc.			
					80-90	90-00	00-05	1980	1990	2000	2005
Federal	\$10,039.7	\$17,668.1	\$34,490.0	\$34,948.5	5.8	6.9	0.3	23.4	21.0	23.8	19.8
State	3,586.8	6,899.2	12,785.7	13,623.3	6.8	6.4	1.3	8.4	8.2	8.8	7.7
Local	1,670.4	3,806.9	5,772.7	7,915.4	8.6	4.3	6.5	3.9	4.5	4.0	4.5
Total	\$15,296.9	\$28,374.2	\$53,048.4	\$56,487.2	6.4	6.5	1.3	35.6	33.8	36.7	32.0
Pers. Inc.	\$42,922.2	\$83,935.6	\$144,702.1	\$176,635.9	6.9	5.6	4.1	-	-	-	-

federal and state levels beginning in tax year 2000. In Wisconsin, tax rates were lowered, personal exemptions were added, and several deductions and credits were increased. Federal income tax cuts became effective in tax year 2001.

At the same time, the state and national economies were slowing. After growing more than 3.5% per year for five consecutive years, “real,” or inflation-adjusted, gross domestic product (GDP) increased only 0.8% in 2001, 1.6% in 2002 and 2.7% in 2003. In Wisconsin, employment declined 0.7% in 2001, 1.1% in 2002 and 0.3% in 2003.

The combination of a weak economy and significant income tax cuts led to relatively large reductions in state and federal taxes. In 2001 and 2002, state taxes fell 7.0% and 0.1%, respectively. In 2002, they increased a modest 2.1%. Federal taxes dropped all three years: 2.2% in 2001; 5.0% in 2002; and 4.6% in 2003.

Local taxes, which are less sensitive to economic conditions, rose rapidly during these years. They increased an average of 7.2% per year from 2000 to 2003. However, due to the declines in state and federal taxes, Wisconsin’s total tax burden fell to 30.5% of income in 2003 from 36.7% in 2000.

Recent Years. Both the national and state economies have rebounded in 2004 and 2005. Real GDP climbed 4.2% in 2004 and is on pace to grow 3.6% in 2005. In Wisconsin, employment rose 1.0% in 2004 and will likely increase 0.9% in 2005.

The growing economy has driven up state and federal tax revenues. Federal taxes paid by Wisconsinites climbed 1.5% in 2004 and 12.5% in 2005. State taxes rose 5.8% and 6.1%, respectively, during those years. Local taxes climbed less over the two years.

As a share of personal income, total taxes in Wisconsin rose to 32.0% in 2005 from 30.5% two years earlier.

STATE TAXES AND FEES

In fiscal 2005, state taxes and fees accounted for 24.1% of Wisconsin’s total taxes collected. That was slightly less than the average (24.6%) during 1980-2005. The state tax share has ranged from 21.9% (1981) to 28.4% (1984).

Individual Income Taxes

The largest state tax is the individual income tax, which was 41.5% of state taxes and fees and 10.0% of total taxes in 2005.

With the exception of the income tax surcharge in calendar year 1983 (which was collected mostly in fiscal 1984), income taxes remained a fairly constant share of income from 1980 to 1990 (see chart below). However, due to rising incomes and an “unindexed” income tax system, they climbed steadily throughout the 1990’s, reaching 4.1% of personal income in 2000.

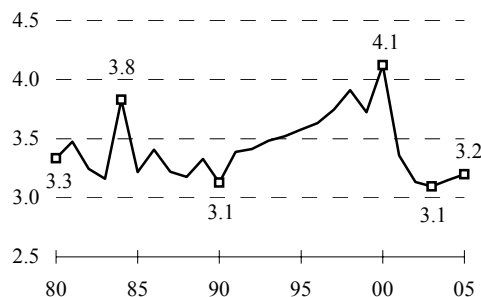
Tax cuts, which included inflation adjustments, combined with a slowing economy to reduce income taxes to 3.1% of income in 2002, the same level as their recent low in 1990. However, because the tax system is now inflation adjusted, the

Tax cuts beginning in 2000 reduced the federal and state tax burden.

A strong economy in 2004 and 2005 helped increase income tax revenues.

Income Tax Revenues Rebound in 2005

State Individual Income Taxes as % of Personal Income, 1980 - 2005



growing economy has only raised the income tax burden to 3.2% of personal income.

As shown on page 7, individual income tax collections totalled \$5.65 billion in 2005, their highest level since 2000 (\$5.96 billion). The 7.1% increase in 2005 was the largest since a 15.5% jump in 2000. Part of the increase that year was attributable to the temporary repeal of the property tax/rent credit.

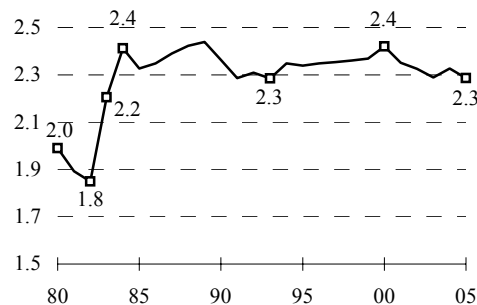
The largest component of individual income taxes is withholding from employee salaries and wages. Revenues from withholding rose 4.1% in 2005, up from a 3.6% rise in 2004.

Sales Taxes

Sales taxes were the second-largest component of state tax and fee collections in 2005, comprising 29.6% of state taxes and fees. State sales taxes totalled \$4.04 billion, a 3.6% increase from 2004.

As a share of personal income, sales tax revenues have been fairly steady. The state sales tax was increased from 4% to 5% effective May 1, 1982. As the chart below shows, sales taxes as a share of personal income jumped from 1.8% in 1982 to 2.2% in 1983 and 2.4% in 1984. Since then, they have remained in a narrow range from 2.29% to 2.42% of income.

Sales Taxes Remain in Narrow Range
Wisconsin State Sales Taxes as % of Personal Income, 1980 - 2005



In 2005, sales taxes, at 2.3% of income, were at the low end of their 20-year range.

State corporate income taxes jumped 17.5% in 2005 and were 18.5% above their most recent peak in 2000.

Of growing concern to some state officials is the increase in Internet purchases. State law requires taxpayers to pay the applicable sales tax on all Internet or other remote (e.g., mail order) purchases. Compliance, however, is small. Wisconsin's Department of Revenue has estimated the 2005 sales tax loss from remote sales at \$130 million. If the state had collected that additional revenue, 2005 sales tax revenues would have been 2.4% of personal income and at the top of the 26-year range.

Corporate Income Taxes

The corporate income tax is the third major state general fund tax. The state gas tax brings in more revenue, but its revenues are designated for specific uses. As a general fund tax, the corporate income tax is not targeted for specific purposes.

Of the major state taxes, corporate income taxes are the most volatile. With the state economy on the rebound, corporate tax revenues jumped 17.5% in 2005 to \$764.1 million. The increase was on top of a 23.5% rise last year. Corporate tax revenues are now 18.5% above their most recent peak in 2000. As a comparison, state sales taxes are only 15.3% above their 2000 level.

As a percentage of income, corporate income taxes fell each year from 1995 (0.57%) to 2002 (0.32%). Part of the decline during the 1990's was due to a shift in business organization from the traditional corporate form to Subchapter S corporations and business partnerships. These latter two types report income on individual (rather than corporate) tax returns. Most of the drop during the early 2000's was due to challenging economic conditions.

Corporate taxes rose to 0.39% in 2004 and were 0.43% of income in 2005. The

State and Local Tax Collections, 1995 - 2005
(\$ in Millions)

Tax/Fee	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
STATE											
Income:											
Individual	\$3,932.9	\$4,183.6	\$4,558.3	\$5,047.5	\$5,162.2	\$5,962.0	\$5,156.6	\$4,979.7	\$5,052.0	\$5,277.1	\$5,650.1
Corp.	631.8	636.0	643.8	627.0	635.2	644.6	537.2	503.0	526.5	650.5	764.1
Sales	2,571.2	2,704.2	2,864.4	3,047.4	3,284.7	3,501.7	3,609.9	3,695.8	3,737.9	3,899.3	4,038.7
Motor Vehicle:											
Fuel	651.2	676.0	693.2	740.2	797.0	809.5	827.5	865.5	902.5	934.6	955.5
Vehicle Reg.	222.5	227.4	228.1	259.8	274.7	289.7	289.5	302.7	299.7	347.9	354.9
Drivers' Licenses	21.0	21.3	22.7	27.1	33.2	35.6	35.6	33.4	30.0	30.8	31.4
Limo/Car Rental	-	-	-	-	2.9	3.4	4.1	3.5	3.4	3.5	3.9
Excise:											
Cigarette	176.9	198.0	204.6	247.7	257.4	247.6	243.5	288.8	293.7	291.3	294.3
Tobacco Products	6.9	7.4	8.8	9.4	9.4	10.3	11.4	13.9	15.5	16.1	15.8
Liquor & Wine	30.6	30.8	31.4	32.7	32.9	34.6	35.5	36.0	36.0	38.5	39.5
Beer	9.0	9.2	9.2	9.3	9.2	9.4	9.4	9.6	9.5	9.6	9.8
Public Utility:											
Electric & Gas	104.3	107.4	109.2	111.9	118.5	122.7	138.0	144.8	148.7	167.2	161.5
Telephone	149.7	160.1	176.4	158.5	149.4	114.7	80.4	86.6	106.3	81.6	72.6
Railroad	12.8	25.2	12.3	10.0	12.1	11.5	1.3	12.0	12.5	11.9	16.0
All Others	27.5	26.5	29.4	24.3	28.3	32.2	30.7	26.9	28.1	29.6	26.5
Unemp. Comp.	427.2	416.8	413.2	415.7	426.1	448.6	438.9	431.5	475.7	548.1	656.1
Insurance Premiums	101.8	101.6	102.2	94.0	105.7	95.3	99.3	107.4	128.2	138.4	144.9
Inheritance & Estate	39.7	45.4	50.7	80.0	116.8	133.3	77.1	82.6	68.7	86.4	112.3
Gift	1.1	0.2	0.2	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Real Estate Transfer	34.8	39.2	41.9	48.1	55.0	56.6	55.3	64.0	57.4	66.3	77.2
Recycling Surcharge	40.6	41.6	51.5	53.6	35.8	9.6	26.3	12.5	15.4	25.5	13.2
Petroleum Inspection	100.6	101.3	105.7	103.8	110.7	105.2	91.0	88.7	93.7	92.6	86.6
Conservation Fees ¹	64.4	62.4	68.0	75.0	92.2	88.0	73.3	72.4	72.2	73.1	75.7
Pari-Mutuel	6.6	5.0	3.9	3.6	3.4	3.0	2.9	3.0	2.1	1.9	1.6
Miscellaneous	20.4	21.3	16.6	15.7	15.9	16.6	15.7	17.3	18.3	18.6	20.9
Total State	\$9,385.4	\$9,847.9	\$10,445.2	\$11,242.5	\$11,768.6	\$12,785.7	\$11,890.2	\$11,881.5	\$12,134.1	\$12,840.3	\$13,623.3
LOCAL											
Gen. Prop.	\$5,572.1	\$5,738.9	\$5,378.0	\$5,635.9	\$5,975.0	\$6,190.9	\$6,604.5	\$7,043.7	\$7,363.6	\$7,687.3	\$8,150.8
State Credit	-319.3	-319.3	-469.3	-469.3	-469.3	-469.3	-469.3	-469.3	-469.3	-469.3	-469.3
Lottery Credit	-136.6	-156.2	-	-205.8	-142.7	-216.2	-90.6	-105.0	-105.1	-118.2	-133.1
Net Levy	5,116.2	5,263.4	4,908.7	4,960.8	5,362.9	5,505.4	6,044.6	6,469.4	6,789.2	7,099.8	7,548.4
Room	23.6	25.5	28.0	31.7	30.4	36.4	38.9	36.1	37.1	38.5	40.0
Sales	139.9	146.0	156.3	165.1	168.7	194.5	219.2	226.5	234.9	241.6	264.3
Motor Vehicle	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.5	0.5	0.6
Local Expo.	2.3	9.8	11.0	11.1	13.3	12.8	14.2	14.0	14.5	15.1	15.2
Premier Resort Sales	-	-	-	-	0.6	1.0	1.2	1.3	1.6	1.8	1.9
Stadium ²	-	5.5	16.5	18.3	20.7	21.9	30.3	43.0	43.6	46.6	45.0
Total Local	\$5,282.6	\$5,450.8	\$5,121.1	\$5,187.6	\$5,597.3	\$5,772.7	\$6,348.9	\$6,790.7	\$7,121.4	\$7,443.9	\$7,915.4
TOTAL STATE & LOCAL											
	\$14,667.9	\$15,298.7	\$15,566.3	\$16,430.0	\$17,365.9	\$18,558.4	\$18,239.1	\$18,672.2	\$19,255.5	\$20,284.2	\$21,538.7
Total Personal Inc.	\$109,927	\$115,180	\$121,718	\$129,099	\$138,667	\$144,702	\$153,548	\$158,888	\$163,273	\$167,586	\$176,636
Taxes as % of Personal Income											
	13.3%	13.3%	12.8%	12.7%	12.5%	12.8%	11.9%	11.8%	11.8%	12.1%	12.2%

Note: Room taxes shown for 2002 and later are calendar-year amounts. Premier resort area sales taxes for 2003 and later are calendar-year amounts. Property tax, county sales tax, and motor vehicle (wheel) tax amounts shown are calendar-year amounts. All other figures are fiscal-year amounts. Figures may not add to total because of rounding. Amounts shown include prior-year re-estimates.

¹ Includes fishing, hunting, camping and admission fees, and boat and snowmobile registrations.

² Collections from: 0.1% special district sales tax in the counties of Milwaukee, Ozaukee, Racine, Washington and Waukesha for Milwaukee Brewers' stadium; and 0.5% special district sales tax in Brown County for Green Bay Packers' stadium.

Sources: Compiled by the Wisconsin Taxpayers Alliance based on information from: Wisconsin Departments of Revenue, Administration, Workforce Development, Transportation and Natural Resources; and U.S. Bureau of Economic Analysis.

latter figure was just below the 2000 level (0.45%).

Motor Vehicle Taxes and Fees

Motor vehicle taxes and fees include the motor fuel (gas) tax, vehicle registration fees, drivers' license fees, and limousine and rental taxes. In total, these taxes and fees rose 2.2% in 2005 to \$1.35 billion.

Motor Fuel Tax. Wisconsin's state motor fuel tax is now 29.9¢ per gallon, 0.8¢ higher than last year and second nationally behind Rhode Island's 30.0¢. In addition to the gas tax, a 3.0¢ per gallon surcharge is collected for the Petroleum Environmental Cleanup Fund Act (PECFA) to clean up contamination from underground storage tanks.

Wisconsin's gas tax generated \$955.5 million in fiscal 2005. That was a 2.2% increase from the previous year. Since 1980, state gas tax revenues have climbed an average of 6.5% per year. Most of the rise has been due to increases in the tax rate.

From 1980 through 1984, the state legislature raised the gas tax four times, from 7.0¢ to 16.0¢ per gallon. Beginning in 1985, the tax rate was indexed, or adjusted, annually. Indexing originally called for the rate to be adjusted annually on April 1 based on inflation and overall fuel consumption, but the consumption factor was removed in 1997. Indexing resulted in a downward adjustment of the gas tax twice—in 1989 and 1994.

Since the first adjustment in 1985 (0.5¢), there have been 19 index adjustments and two statutory adjustments (2.0¢ in 1980 and 1.0¢ in 1997) totalling 13.4¢.

Registration Fees. Collections from registration fees rose 2.0% in 2005 to \$354.9 million. After rising in 2004 from \$45 to \$55, the state's vehicle registration fee was

unchanged in 2005. Thus, this year's modest increase was due primarily to increased registrations and title transfers. The vehicle title transfer fee (\$35) is included in the registration fee total.

Drivers' License Fees. Wisconsin charges \$24 to renew a driver's license, which generally must be renewed every eight years. In 2005, collections totalled \$31.4 million, up 2.2% from the year before.

Wisconsin's gas tax generated \$955.5 million in fiscal 2005, or 2.2% more than the year before.

Excise Taxes

Wisconsin levies excise taxes on several products, including cigarettes and other tobacco products, liquor, wine and beer.

Cigarette and Tobacco Taxes. Since 2001, Wisconsin's cigarette tax has been 77¢ per pack; this rate currently ranks 28th highest among the states. Rhode Island (\$2.46) has the highest tax, South Carolina (7¢) the lowest. Wisconsin also imposes a 25% tax on the manufacturers' list price of other tobacco products.

In 2005, cigarette taxes totalled \$294.3 million, up 1.0% from 2004. Since the large rise in fiscal 2002 due to the tax rate increase, cigarette tax collections have gone up only 1.9%, or 0.6% per year.

Taxes on other tobacco products totalled \$15.8 million, a 1.6% decrease over 2004. From 1999 through 2003, these taxes rose an average of 13.3% per year. Over the last two years, the annual increase was 1.1%.

Alcohol Taxes. Like most states, Wisconsin imposes taxes on beer, liquor and wine. Beer is taxed at \$2 per 31-gallon barrel, or about 6¢ per gallon. That rate is

Since 1979, the state gas tax has increased 24 times, rising from 7.0¢ per gallon to 29.9¢.

State cigarette taxes rose 1.0% in 2005; other tobacco taxes declined 1.6%.

second-lowest nationally behind Wyoming's 2¢ per gallon. In Wisconsin, liquor is taxed at \$3.25 per gallon; wine, at 25¢ to 45¢ per gallon, depending on alcohol content. Of the 32 states with excise taxes on liquor (18 states have direct government control of liquor sales), 12 have lower tax rates and 19 have higher rates than Wisconsin.

In 2005, beer taxes totalled \$9.8 million, up 1.8% from the previous year. Liquor and wine taxes were \$39.5 million, up 2.8% from 2004.

Public Utility Taxes

In lieu of property taxes, public utilities pay special taxes to the state. Total public utility taxes were \$276.6 million in 2005, down 4.7% from the previous year. Taxes paid by telephone companies dropped 11.0% to \$72.6 million, while electric company taxes were down 3.4% to \$161.5 million.

Unemployment Insurance Taxes

Collections from the unemployment insurance (UI) tax rose 19.7%, from \$548.1 million to \$656.1 million. This percentage increase—the largest rise since 1985 (31.4%)—resulted from increases in the UI fund tax rate schedules, which took effect January 1, 2005, and an increase in taxable wages reported by employers.

When combined with last year's 15.2% increase, the two-year jump in unemployment insurance tax collections was 37.9%. That was the largest two-year increase since 1985, when taxes were 130.0% higher than in 1983.

Rate schedules change depending on the condition of the state's unemployment reserve fund. The tax an employer pays varies based on how often that employer lays off or fires employees who then collect benefits. The system assigns each covered

employer an "experience rating," which measures whether the employer's employees tend to collect considerable UI benefits. The higher the experience rating, the higher the employer's taxes. With increasing numbers of layoffs during the recent recession, ratings and corresponding UI tax payments rose.

Wisconsin's unemployment insurance tax rates have increased for two consecutive years (2004 and 2005) due to a declining reserve fund. Employers will use the same rate schedule in 2006 as in 2005.

Other State Taxes and Fees

Various other state taxes and fees, including the estate tax, real estate transfer fee and petroleum inspection fee, totalled \$532.5 million, or 3.9% of the 2005 state total. The amounts are listed in the table on page 7.

LOCAL TAXES

Since 1980, local taxes have fluctuated between 3.9% (1980) and 5.0% (1994) of income. Property taxes make up the preponderance of local taxes and fees.

Property Taxes

Gross property taxes—the amount before state tax credits are applied—totalled \$8.15 billion in fiscal 2005, an increase of 6.0% over 2004. The state provided \$602.4 million in state credits (\$469.3 million in school levy credits and \$133.1 million in lottery credits). As a result, net levies totalled \$7.55 billion, up 6.3% from 2004.

At 4.6% of income, 2005 gross property tax levies were at the highest level since 1996, the year before the state's \$1.2-billion buydown of school property taxes. Local property taxes reached a recent peak of 5.3% of income in 1994.

Unemployment insurance taxes climbed 19.7% in 2005 due to higher tax rates and increased taxable wages.

Net property taxes in 2005 were 4.3% of personal income, the highest level in 10 years.

County sales tax revenues rose 9.4% to \$264.3 million in 2004.

The state provides two major credits to property taxpayers. The first is a school levy credit, which totalled \$469.3 million in 2005. This credit was increased in 1997 from \$319.3 million and has remained at its current level since then.

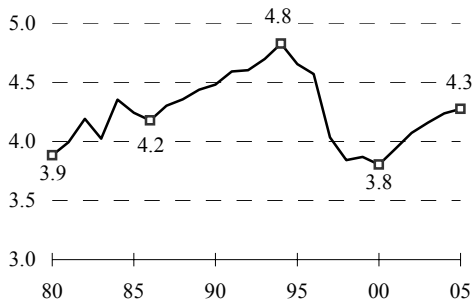
The second credit is based on total lottery revenues. In 2005, the lottery credit was \$133.1 million. This credit was first applied to property tax bills in 1992 and has varied widely. No credit was provided in 1997 due to legal questions about who should receive it. In 1998, two years' worth of credits (\$205.8 million) were provided.

The chart below shows a history of net property taxes relative to personal income. From 1980 to 1994, net property taxes as a share of income generally increased, from 3.9% to 4.8% of income. Beginning in 1994, state-imposed revenue limits on school districts slowed the growth of property taxes. Increased school aids and property tax credits beginning in 1997 helped reduce net property taxes to 3.8% of income by 1998.

Combined, more than 190 municipalities collected an estimated \$40.0 million in room taxes in 2004.

However, recent increases in levies along with slow growth in credits have led to rising net property tax burdens. In 2005, net burdens reached 4.3% of income, the highest level in 10 years.

Net Property Taxes Rising Again
Statewide Net Property Taxes as % of Personal Income, 1980 - 2005



Local Sales Taxes

Since 1969, Wisconsin counties have been permitted to impose a 0.5% sales tax, although they originally had to distribute the proceeds to the underlying municipalities. The 1985-87 state budget gave counties the option of keeping the revenues to use for property tax relief. In 1986, Barron and Dunn counties adopted the tax. Since then, an additional 56 counties have adopted the half-cent tax. Wood county is the most recent, adopting the tax effective January 1, 2004.

Recent increases in property tax levies along with slow-growing credits have led to growing property tax burdens.

In calendar year 2004, collections totalled an estimated \$264.3 million, up 9.4% from \$241.6 million the previous year.

In 1995, the legislature created the five-county 0.1% sales tax to pay for construction of the Milwaukee Brewers' stadium. In November 2000, the Local Professional Football Stadium District began imposing a 0.5% sales tax in Brown county to finance renovations to the Green Bay Packers' stadium. As shown on page 7, revenues from these two additional sales taxes totalled \$45.0 million in fiscal 2005, down 3.4% from 2004.

Other Local Taxes

More than 190 communities statewide collect room taxes. Total revenues for calendar year 2004 were estimated at \$40.0 million, or 3.9% more than in 2003.

In general, a municipality or other political subdivision with at least 40% of its equalized property value used by tourism-related retailers may impose a 0.5% premier resort sales tax. Proceeds

may be used only to pay for infrastructure expenses within the jurisdiction.

State law allows the cities of Bayfield and Eagle River to impose the tax even though they fall below the 40% limit. Bayfield began collecting the tax on January 1, 2003, joining the village of Lake Delton (which began collecting it April 1, 1998) and the city of Wisconsin Dells (July 1, 1998). Eagle River has yet to adopt the tax. Total revenues from this tax were \$1.9 million, a 5.0% increase from 2003.

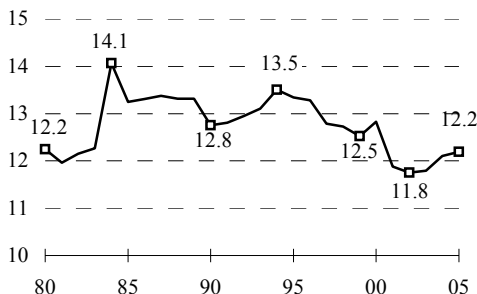
STATE AND LOCAL COMBINED

Due primarily to rising local tax collections, Wisconsin's combined state-local tax burden climbed to 12.2% of personal income in 2005, up from 12.1% in 2004 and 11.8% in both 2002 and 2003 (see chart below).

After peaking at 14.1% of income in 1984, Wisconsin's state-local tax burden generally declined through the 1980's, reaching 12.8% of income in 1990. After moving back up to 13.5% by 1994, state-local taxes as a share of personal income continued their long-term decline, dropping to 12.5% in 1999 and 11.8% three years later.

Despite the rise in recent years, Wisconsin's state-local burden has been generally declining since its 1984 peak.

State-Local Tax Burden
State-Local Taxes as % of Personal Income,
1980 - 2005



FEDERAL TAXES

The federal government collected an estimated \$34.95 billion in taxes from Wisconsin residents and businesses in 2005, an increase of 12.5% from 2004. Federal taxes were 61.9% of all taxes Wisconsinites paid.

Income Taxes

Individual. The individual income tax is the largest federal tax paid by state citizens, comprising 41.0% of the 2005 total (see table on page 12). Residents paid an estimated \$14.34 billion in federal individual income taxes, up 13.3% from 2004 and 32.3% from 1995.

As a share of income, the federal individual income tax is the largest tax paid by state residents. In 2005, it claimed 8.1% of personal income. Its most recent peak was in 2000 at 11.5% of income.

Corporate. Corporate income taxes paid to the federal government by Wisconsin firms also rose significantly. They were up 36.3% to \$4.30 billion in 2005. As a share of Wisconsin's federal total, corporate taxes were 12.3% in 2005.

Because corporate profits fluctuate widely with economic conditions, corporate income taxes also swing from year to year. Since 1980, Wisconsin's federal corporate income tax has ranged from 1.3% of personal income in 1983 to 3.1% in 1980. In 2005, it was in the middle of the range at 2.4%. Corporate income tax collections have risen 46.5% since 1995.

Employment Taxes

Social Security. Social security is financed by a payroll tax on employers and employees, and on the income of self-employed persons. Employers and employees each pay 6.2% for old-age, survivors and disability insurance (OASDI), which replaces a portion of an employee's earned

Wisconsin's state-local tax burden has been generally declining since 1984.

Federal taxes rose 12.5% in 2005 to \$34.95 billion.

Continued from page 11, "Wisconsin's Total Taxes: 2005"

income lost through retirement, disability or death. Employers and employees each pay an additional 1.45% for Medicare hospital insurance.

In 2005, the OASDI tax was applied to annual employee earnings of up to \$90,000. For 2006, the earnings cutoff will be \$94,200. The Medicare hospital insurance tax is applied to all employee earnings.

Social security taxes are the primary type of employment tax. Collections in 2005 totalled \$14.00 billion, an increase of 7.9% from 2004. These taxes were 60.9% higher than in 1995. Social security taxes accounted for 40.0% of Wisconsin's 2005 federal tax burden.

Unemployment Taxes. Unemployment insurance collections were \$966.6 million in 2005. However, \$731.8 million of that was state unemployment insurance collections deposited in the federal treasury. Thus, net federal unemployment taxes were \$234.8 million, or 0.7% of total federal taxes.

Other Federal Taxes

Federal excise, estate and gift taxes comprise the remaining 6.0% of federal col-

**Federal Taxes in Wisconsin
1995 and 2005 (\$ in Millions)**

Type of Tax	Amount		% Chg.
	1995	2005	
Ind. Income	\$10,833.1	\$14,335.6	32.3%
Corp. Income	2,934.1	4,297.7	46.5
Subtotal	\$13,767.2	\$18,633.4	35.3
Social Security	\$8,698.1	\$13,995.9	60.9
Unemp. Ins.	562.7	966.6	71.8
State Deposit	-451.2	-731.8	62.2
Subtotal	\$8,809.6	\$14,230.7	61.5
Excise/Duties	\$1,505.0	\$1,780.1	18.3
Estate/Gift	173.6	304.5	75.4
Total	\$24,255.3	\$34,948.5	44.1%

lections. Federal excise taxes include taxes on cigarettes and other tobacco products, beer, wine, and other alcohol beverages. In 2005, collections from excise taxes and duties totalled \$1.78 billion.

Federal estate and gift tax collections were \$304.5 million. □

DATA SOURCE:

Tax Foundation; U.S. Bureau of Economic Analysis; and Wisconsin Departments of Administration, Natural Resources, Revenue, Transportation and Workforce Development.



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