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### Wisconsin Taxpayers Alliance

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Info Request



A monthly review of Wisconsin government, taxes and public finance

# The Wisconsin Taxpayer



## Nickels and Dimes: The Wisconsin Sales Tax

### IN BRIEF

Polling has long shown the sales tax to be more “popular” than its brethren, the property and income taxes. It is not hard to understand why: The sales tax is generally paid in nickels and dimes; many taxpayers do not know what they pay. Yet Wisconsin’s sales tax collections are surpassed only by the property and individual income taxes. The sales tax—its rates, revenues and administration—certainly merits attention:

- Wisconsin’s sales tax collections rose 3.6% to \$4.04 billion in 2004-05.
- Sales taxes accounted for 35.6% of state tax revenue and 14.0% of county tax revenue in 2005.
- Sales tax revenues have increased at least 1.1% every year since they were first levied in 1962.
- Sales tax exemptions for food, manufacturing equipment, prescription drugs and agricultural supplies were worth \$860 million in 2003-04, more than 20% of collections.

### Also in this issue:

Wisconsin Notes: Wisconsin’s Wealth

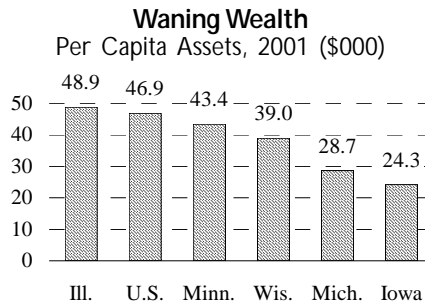
WISTAX Focus: Taxpayer Protection Amendment; Smaller County Boards?

## Wisconsin Notes

■ **Wisconsin's Wealth.** Wisconsin's citizens held assets worth \$210.7 billion in 2001, according to estimates from the IRS. They ranked 19th in the U.S., well behind California, which ranked 1st at \$2.37 trillion. National assets were valued at \$13.4 trillion.

Any item of economic value is considered an asset, and the sum of assets is a measure of individual wealth. Wisconsinites' per capita assets totalled \$38,992, 17th nationally. The U.S. average was \$46,921. Connecticut led the nation with \$101,955. Among our neighbors, Illinois (\$48,865; 12th) and Minnesota (\$43,435; 13th) exceeded Wisconsin, while Michigan (\$28,741; 35th) and Iowa (\$24,252; 42nd) trailed.

From 1998 to 2001, Wisconsin's assets appreciated 46.6%, 24th in the U.S. Massachusetts led the nation at 143.7%, while Mississippi ranked last at -33.0%. The national average was 60.8%. The effect of Wisconsin's relatively slow growth is reflected in the state's share of national assets. In 1998, Wisconsin's assets were 1.73% of the U.S. total, but by 2001, they fell to 1.58%.



## WISTAX Focus

■ **Taxpayer Protection Amendment.** As the state legislature nears the end of its two-year session, the most controversial issue on its agenda is the Taxpayer Protection Amendment (TPA). TPA seeks to slow governmental growth by limiting the taxes and fees state and local governments can receive. WISTAX reviews TPA in a series of articles in its *Focus* newsletter. "TPA Q&A" (#3-06) explains the nuts and bolts of the amendment, and "TPA and state finances" (#4-06) examines the potential effect of the amendment on state revenues over 5, 10, 15 and 20 years.

■ **Smaller County Boards?** Recently enacted, Act 100 allows counties to reduce the size of their boards once between censuses, either by a board vote or through petition and referendum. Since then, petitioners in several counties have started collecting signatures to place questions on the ballot, claiming smaller boards will save money. In "More efficiency or less democracy?" (*Focus* #5-06), WISTAX compares Wisconsin's county boards to those of other states, debates the effects of board reductions and offers other questions advocates of reform might consider.

# The Wisconsin Taxpayer

February 2006 Vol. 74 No. 2

Publication Number USPS 688-800

Periodical postage paid

at Madison, Wisconsin

### Subscription Price:

One Year, \$15; Three Years, \$32

Published each month by the

Wisconsin Taxpayers Alliance

### Postmaster:

Send address changes to *The Wisconsin Taxpayer*, 401 North Lawn Avenue, Madison, Wisconsin 53704-5033 phone: 608.241.9789 fax: 608.241.5807 e-mail: wistax@wistax.org Web site: www.wistax.org

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## Nickels and Dimes: The Wisconsin Sales Tax

Mississippi pioneered the sales tax in 1932. Almost immediately, it became a staple in state taxation. By the time Wisconsin levied the tax in 1962, it was the 36th state to do so. Since then, the sales tax has generated \$67.3 billion for the state. More recently, counties and several special units of government have used the sales tax to raise money for “property tax relief,” general expenses and debt service.

Because the sales tax is typically imposed in small increments, citizens may not realize how much they pay over the course of a year. In 2005, state and local sales taxes generated \$782 per person, or \$2,070 per household. In terms of state-local taxation, this ranks 3rd behind the property (\$1,376 per capita) and the individual income (\$1,012) taxes.

This report traces the development of the sales tax and evaluates its role in Wisconsin’s tax structure. Included are interstate comparisons of tax rates, revenues and exemptions. This report does not discuss special sales taxes that apply to specific items, such as state excise taxes on gasoline, liquor and cigarettes or local taxes on hotel rooms.

### SALES TAX DEVELOPMENT

#### U.S. Sales Taxes

When Mississippi enacted the first retail sales tax, the state collected 2% on all items sold. The tax replaced a broad “business occupation tax” and proved a productive revenue source with several advantages over the prior tax.

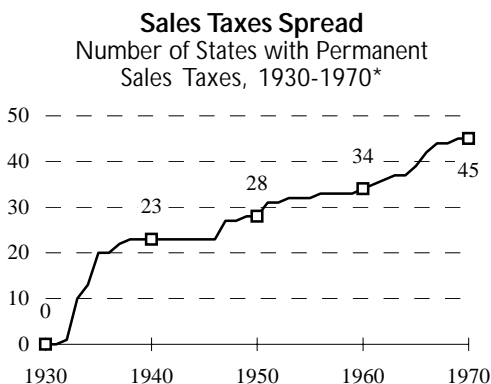
With the business occupation tax, the state taxed items during each step of production. Thus, some materials and goods were taxed repeatedly, a concept called “pyramiding.” For example, a logging company could chop down a tree and sell it to a lumber company, which could turn it into beams and sell them to a hardware store, which in turn could sell them to individuals. Under a business occupation tax, each transaction could be taxed, but a sales tax taxes only the final purchase. This made the sales tax fair and easier to administer than the business tax. Both retailers and the government appreciated the change.

One year after Mississippi adopted the sales tax, nine states added their own (see chart below). By the time Wisconsin enacted its tax, three decades after Mississippi, 35 other states had already implemented one.

Today, 45 states and the District of Columbia levy a broad sales tax. Only five (Alaska, Delaware, Montana, New Hampshire and Oregon) do not, although Alaska allows its municipalities to levy one. Ev-

*State and local sales taxes raised \$782 per person in Wisconsin in 2005.*

*Wisconsin was the 36th state to impose a sales tax. Today, 45 states and the District of Columbia have one.*



\*There have been no changes since 1969.

ery state that taxes sales began doing so by 1969; no state has added or dropped the tax since.

### Wisconsin Sales Tax

Wisconsin's history with the sales tax dates to 1931 (see time line below), when the state assembly failed to act on a bill mandating a tax on "gross sales of retail merchants." At the time, many legislators felt it would undermine the state's tradition of "progressive taxation." For the next three decades, sales tax bills were swiftly rejected as politicians sought to distance themselves from the unpopular measure.

*Enactment.* Frustration with other taxes would eventually overcome aversion to the sales tax. In the early 1960's, rapidly growing population and demand for services collided with state budget shortfalls. With already high property and income taxes, the only politically viable option to raise additional revenues was the sales tax. Despite this, it took lengthy debate and political maneuvering (including support from James Doyle, Sr., father of the current governor) for the legislature to enact a 3% selective sales tax effective beginning in 1962.

***Wisconsin enacted a 3% selective sales tax in 1962.***

Like much in Wisconsin's fiscal history, the sales tax was tied to an effort to provide property tax relief. The enactment of the tax was part of a larger bill that changed income tax rates, mandated income tax withholding and provided property tax relief for merchants and municipalities.

In a nod to those concerned about the effect of the sales tax on low-income citizens, only "luxury" sales were to be taxed. The original list included goods like alcohol, jewelry and cars, and also services such as restaurant dining, hotel rooms and movie tickets. This move eased political opposition and limited the revenue the sales tax could generate.

*Expansion.* The sales tax underwent a major change in 1969, and again, property tax frustration played a role. Public concern with high property taxes rose during the late 1960's. In 1968, property taxes surpassed 6% of personal income for the first time. A task force was commissioned to study why Wisconsin's property taxes were historically high. One reason, the group argued, was that other states made greater use of the sales tax.

In 1969, Wisconsin's sales tax rate was raised one point to 4%, and the tax base was expanded to a general one. The difference between selective and general taxes is that the former specifies what is to be taxed, while the latter taxes all items unless specifically exempted. Exempt goods included food purchased for home consumption, prescription drugs and farm machinery. Since the tax was imposed on "tangible personal property," services were generally not included, though the law did expand the list of taxed services.

In 1982, the state sales tax rate was again raised one percentage point, to 5%. The increase was to be temporary, lasting from May 1, 1982, to June 30, 1983. After that,

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### Wisconsin Sales Tax Time Line

1931	First attempt to enact a retail sales tax rejected.
1961	State enacts 3% selective sales tax to begin in 1962.
1969	State raises rate to 4% and converts to a general sales tax; counties allowed to adopt 0.5% sales tax.
1982	State raises rate to 5%.
1985	County sales tax law changed to allow counties to keep revenue; two counties adopt 0.5% tax in 1986.
1994	Law allows creation of exposition districts; municipalities in Milwaukee County create district in 1995.
1996	Baseball park sales tax (0.1%) first levied in five southeastern counties.
1997	Law allows creation of premier resort areas and levy of 0.5% selective tax.
2000	Football stadium tax (0.5%) first levied in Brown County.

either the rate would revert to 4% or the additional sales tax revenue would have to provide property tax relief, depending on the outcome of a constitutional amendment. However, with a new governor and continued budget deficits, the legislature made the increase permanent in 1983.

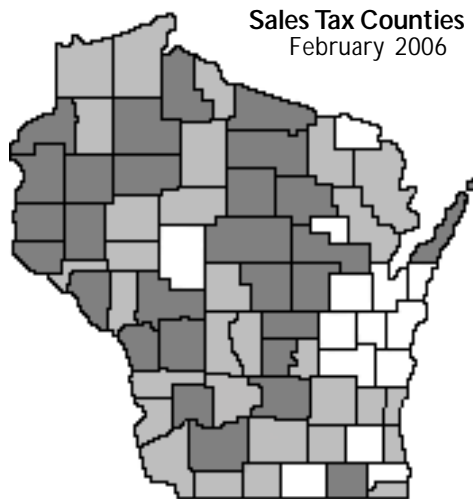
Since 1982, the state sales tax rate has not been adjusted. However, total rates paid in many communities have increased due to the addition of county and other special sales taxes.

### County Sales Taxes

In 1969, Wisconsin counties were given the option of enacting a 0.5% sales tax within their borders. The law required the revenue to be distributed to municipalities within the county. Since county boards would enact the tax but revenue would go elsewhere, there was little incentive for them to adopt it, and none did.

In 1985, the law was altered so that counties could keep sales tax revenue, as long as it was used “for the purpose of directly reducing the property tax levy.” This change increased the political appeal of the tax, and the next year, two counties began to levy sales taxes.

In 1986, Barron and Dunn levied the first county sales taxes in Wisconsin. The following year, 10 counties joined them.



*A total of 58 counties levy their own sales tax.*

- Added county sales tax 1986-1990
- Added county sales tax after 1990
- No county sales tax

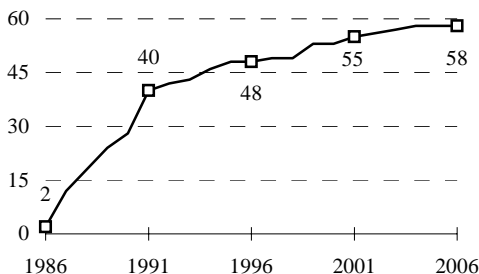
Within five years, 40 of Wisconsin’s 72 counties had enacted the tax. As the chart (below, left) shows, the growth has slowed since the early 1990’s, but the number of counties with the tax has continued to rise. To date, no counties have repealed the tax once it became effective. On January 1, 2004, Wood became the 58th Wisconsin county to collect a sales tax.

Counties in western Wisconsin are much more likely to have a county sales tax than their eastern counterparts (see map above). Of the 14 counties without a sales tax, 13 are in the eastern half of the state. The only exception is Clark County.

*Clark is the only western Wisconsin county without the sales tax.*

Heavily populated counties are also less likely to impose a county sales tax. Of Wisconsin’s eight most populous counties, only Milwaukee and Dane have the tax. More broadly, only nine of the 18 most populous counties impose the sales tax, while 49 of the other 54 counties do. Although 81% of Wisconsin counties have the tax, it covers only 71% of the state’s population.

**County Sales Taxes Spread Quickly**  
Counties Levying Sales Tax, 1986-2006



## Other Sales Taxes

*Stadium Taxes.* In terms of revenue, the two largest local taxes raise money for sports stadiums. Created in 1996, the Southeast Wisconsin Professional Baseball Park District collects 0.1% of sales in Milwaukee, Ozaukee, Racine, Washington and Waukesha counties to raise funds for the construction and operation of Miller Park.

A 2000 county referendum created the Green Bay/Brown County Professional Football Stadium District. The district imposes a 0.5% sales tax to raise money for renovations of Lambeau Field.

Both taxes are used to pay the debt service for the projects. When these liabilities are paid off, the taxes will end. According to recent projections, both taxes could be lifted by 2014.

*Special Taxes.* The other major type of local sales tax creates special zones where additional taxes may be imposed. “Exposition districts” allow counties and municipalities to independently or jointly create districts with wide powers, including the authority to impose certain taxes. Because of several restrictions, Milwaukee County is the only area where an exposition district has been created and taxes are levied. The district taxes hotel rooms, car rentals and restaurant dining.

The Premier Resort Area Tax (PRAT) allows locales with significant tourism to tax “tourism-related retailers.” By law, retailers in tourism-related businesses must account for 40% of the area’s equalized value in order for the area to qualify for the tax. Three municipalities—Lake Delton, Wisconsin Dells and Bayfield—have enacted the selective 0.5% tax. Bayfield received an exemption from the 40% requirement.

## Wisconsin Sales Tax Continues to Grow

State Sales Tax Collections (Revs. in Millions)

Year	Revs.	% Change	% of GPR Taxes	Per Capita
1962	\$13.9		4.2%	\$3
1963	55.4	298.6%	12.2'	14
1964	80.3	44.9'	14.2'	19
1965	83.4	3.9'	14.4'	20
1966	92.1	10.4'	13.9'	22
1967	97.7	6.1'	13.3'	23
1968	106.8	9.3'	13.5'	25
1969	116.8	9.4'	13.3'	27
1970	272.6	133.4'	24.7'	62
1980	853.9	213.2'	28.7'	181
1990	1,983.8	132.3'	35.1'	406
2000	3,501.7	76.5'	32.0'	653
2001	3,609.9	3.1'	35.9'	668
2002	3,695.8	2.4'	36.9'	678
2003	3,738.0	1.1'	36.6'	681
2004	3,899.3	4.3'	36.3'	705
2005	4,038.7	3.6'	35.6'	724

**Only 11 of 72 counties levy no county or local sales taxes.**

**State sales tax collections totalled \$4.04 billion in 2005.**

## TOTAL TAX RATE

Because of the various sales taxes within the state, different counties and municipalities have different total sales tax rates:

- In 11 counties, the tax rate is 5.0%. Only the state sales tax is levied there.
- Two counties have rates of 5.1%. They have no county sales tax, but they pay the 0.1% baseball park tax.
- In 56 counties, the rate is 5.5%; 55 have a county tax, while Brown has the football stadium tax.
- Three counties have rates of 5.6%. They collect both county and baseball park taxes.

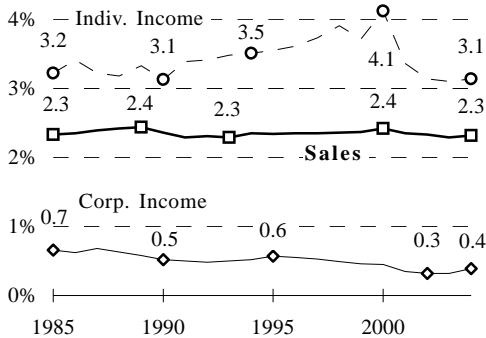
Additionally, in the three PRAT districts, 6.0% of sales is collected from tourism-related retailers. In Milwaukee County, higher rates are collected on hotel rooms, rental cars and restaurant service.

## REVENUES

After facing opposition in the state legislature for decades, the sales tax has become an integral part of the state’s tax

### Sales Tax More Stable Than Others?

Taxes as % of Personal Income, 1985-2004



structure. Some elected officials and citizens seem to prefer it because, unlike the property tax, the sales tax is collected in small, little-noticed amounts.

### State Sales Tax

In 2005, Wisconsin's state sales tax revenues rose 3.6% to \$4.04 billion (see table on page 6). They accounted for 35.6% of the state's general purpose revenue (GPR) taxes and equalled \$724 per person. Yet these numbers alone do not explain the sales tax's significance to state government.

In 1968, the sales tax passed the corporate income tax to become the second-largest source of tax revenue for state government. It has remained so every year since. Only the individual income tax generates more revenue. While the sales tax has accounted for more than one-third of GPR in recent years, the individual income tax typically accounts for about half.

The sales tax is the most steady source of tax revenue for the state. One indicator of this is the share of personal income (PI) it generates: From 1985 to 2004, it raised between 2.29% and 2.44% of PI every year (see chart above). During the same period, individual (3.10%-4.12%) and corporate (0.32%-0.68%) income taxes varied more.

While most state taxes are affected by the economy, the sales tax has been less

volatile than others. Sales tax revenues have increased at least 1.1% every year since the tax was first levied in 1962.

Since sales tax revenues are relatively consistent from year to year, their share of total GPR taxes at any time depends largely on the growth of other taxes. When income tax collections are increasing rapidly, the sales tax accounts for a declining share of state collections. Conversely, when other tax revenues slow, the sales tax accounts for a larger share of GPR taxes. Around 2000, a slowing economy and a change in tax law combined to lower corporate and individual income tax revenues. Consequently, as the table on page 6 shows, the sales tax rose from 32.0% of 2000 GPR taxes to 36.9% in 2002.

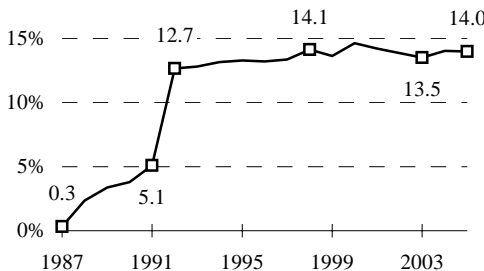
*State sales tax revenues have increased at least 1.1% every year since 1962.*

### County Sales Tax

The primary source of county tax revenue is the property tax. Indeed, until the addition of county sales taxes, it was virtually the only source. As more counties have levied the sales tax, its share of tax revenue has increased. As the chart below shows, the largest jump occurred in 1992. The previous year, 12 counties, including Milwaukee and Dane, added the sales tax. Consequently, sales taxes as a percentage of total county tax revenue jumped from 5.1% to 12.7%. Since then, it has increased modestly.

*County sales taxes generated \$261.0 million in 2005.*

**Tax More Important for Counties**  
Sales Tax as % of Total County Tax Revenues, 1987-2005



In counties that levied the sales tax, it accounted for 18.4% of total taxes in 2005. The percentages varied from 7.1% in Adams to 29.0% in Eau Claire. Although the property tax remains the counties' most valuable levy, the sales tax can play an important role in raising revenue.

In 2005, the county sales tax generated \$261.0 million in 58 counties. Milwaukee (\$62.0 million) and Dane (\$41.3 million) led the state; because the next six most populous counties do not levy the tax, no other county's revenue exceeded \$11 million. Sparsely populated Forest and Pepin raised the least—\$370,000 and \$340,000, respectively.

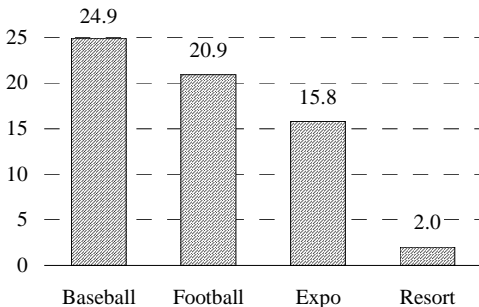
County sales taxes generated an average of \$66.29 per capita in counties where they were imposed in 2005. Sauk (\$113.08) had the highest 2005 per capita revenues, while Lafayette (\$33.17) had the lowest. In 1995, the per capita average was \$46.90. The statewide increase from 1995 to 2005 was 41.3%, with a high of 76.8% in Sauk and a low of 10.9% in Marquette.

By law, county sales tax revenue must be used for property tax relief. However, a 2002 WISTAX study found only 21¢ of every county sales tax dollar was likely used to lower property taxes. Of the 49 counties examined, 21 showed no relief at all. Only six appeared to use most of their sales tax revenues for relief.

*There is limited evidence that counties use sales tax revenues to relieve property taxes.*

*Local sales taxes raised over \$60 million in 2005.*

**Sales Tax Has Special Uses, Too**  
2005 Collections (\$ Millions)



## Other Sales Taxes

Wisconsin's remaining taxes on sales raise less revenue than the state and county levies. As the chart (below, left) shows, the four taxes combined to generate \$62.1 million in 2005.

The baseball park tax raised \$24.9 million in 2005 in the Milwaukee metropolitan area. It is the largest of the local taxes. Since 1996, the tax has generated \$214.2 million. Milwaukee and Waukesha counties typically generate about three-quarters of the tax's total revenue.

Brown's football stadium tax generated \$20.9 million in 2005. Since its enactment in 2001, it has raised \$97.5 million. If the levy were a county tax instead of a stadium tax (both rates are 0.5%), it would be the state's third largest, behind only Milwaukee and Dane.

The exposition tax on hotel rooms, car rentals and restaurant service raised \$15.8 million in 2005 from its taxes in Milwaukee County. Two hotel taxes accounted for \$10.6 million, while the food and car taxes generated \$3.4 million and \$1.8 million, respectively. The total was a 5.0% increase over the previous year; the growth in this tax could be viewed as one measure of the health of Milwaukee's tourism industry.

The PRAT raised a total of \$2.0 million in three "premier resort areas" in 2005. Of that, \$1.4 million came from the village of Lake Delton. The Wisconsin Dells tax raised \$510,000, and the village of Bayfield's levy garnered \$59,000. Since Lake Delton and Wisconsin Dells began collecting the tax in 2001, PRAT levies have totalled \$8.3 million.

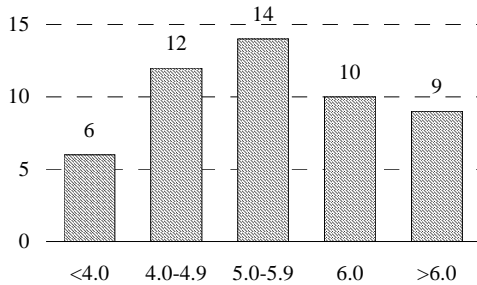
## NATIONAL COMPARISONS

### State Sales Tax

*Rates.* By many measures, Wisconsin's state sales tax rate (5.0%) is "typical." The

### National Rates Vary

States by Sales Tax Rate (%), January 2006



median (half higher, half lower) tax rate among the states is 5.0%, which nine states levy. Ten states impose a sales tax rate of 6.0%, the only rate more common than 5.0%. There are 35 states within one point (4.0%-6.0%) of Wisconsin's state tax rate (see chart above).

Among states with the sales tax, the average rate is 5.3%. Rates range from 2.9% in Colorado to 7.0% in Mississippi, Rhode Island and Tennessee.

From 2000 to 2004, as many states faced budget crunches, 14 states increased their rates, some on a temporary basis. During the same period, only Colorado lowered its rate.

**Revenues.** The importance of the sales tax to state governments varies. While some states do not have one, it generates much of the tax revenue for others. In Tennessee (which has no state income tax), the sales tax accounted for 61.3% of the state's taxes in 2004, highest in the nation. Wisconsin ranked 27th in the U.S. in sales tax revenue as a share of taxes with 30.9%. The 2004 national average was 33.4%.

According to the U.S. Census Bureau, sales taxes generated \$676 per person in the U.S. in 2004. Wisconsin ranked 21st nationally at \$708. Hawaii (\$1,506) and Washington (\$1,357) topped the list. The revenues in Hawaii are high due to broad service taxation and extensive tourism.

### County and Local Taxes

**County.** Thirty states had significant (more than \$1 million in revenues) county general sales taxes in 2002. Wisconsin's were 18th largest in the nation, generating \$218 million. Nationally, the taxes raised \$15.7 billion in 2002. New York's \$4.5 billion led the nation, while Florida's \$1.8 billion ranked second.

**Municipal.** Unlike Wisconsin, 28 states had significant municipal general sales taxes in 2002. Nationwide, municipal sales taxes raised \$21.5 billion in 2002, led by California (\$4.6 billion) and New York (\$3.6 billion). Although fewer states levied municipal than county sales taxes, total revenues were higher because many states with large cities (California, New York, Texas) had substantial municipal taxes.

**School District.** Five states allowed school districts to levy significant general sales taxes in 2002. Total revenues were \$2.5 billion, with Georgia (\$1.2 billion) and Louisiana (\$1.1 billion) accounting for 93.3% of the total.

### TAX INCIDENCE

A common objection of those opposed to the sales tax is its regressivity. Even though the tax rate is constant for all people, those with less income generally spend a higher percentage of income on taxable goods. Thus, a higher share of their income is paid in sales taxes.

A 2004 Wisconsin Department of Revenue (DOR) report, *Wisconsin Tax Incidence Study*, measured Wisconsin's tax burden by income. DOR found that the overall state-local tax burden was "proportional to slightly progressive" for income groups other than the top 1% of households. This is the result of a strongly progressive income tax offsetting the regressivity of other taxes, including the sales tax.

**Thirty-five states have sales tax rates within one point of Wisconsin's.**

**Wisconsin ranked 21st in the U.S. in per capita sales tax revenues in 2004.**

*Low-income households spent 3.3%-4.0% of income on the sales tax, while the top 1% spent 1.5%-1.9%.*

The same study found that the sales tax was regressive over all income groups. In 2001, households with incomes in the lowest 20% spent between 3.3% and 4.0% of their incomes on the sales tax. As income increased, the share spent on the sales tax decreased. The top 1% of households spent between 1.5% and 1.9% of their incomes on the sales tax.

## TAX BASE

### Exemptions

As regressive as the sales tax is, some claim it would be more so without exemptions from the tax base. The tax base consists of items subject to a particular tax. Exemptions from the sales tax base exist for several reasons. Goods purchased by charities are exempt. Some items, such as manufacturing and agricultural materials, are exempt to prevent pyramiding and double taxation.

Exemptions are most often used to make the sales tax less burdensome for low-income households. Exempting certain goods from the base, it is argued, helps reduce the regressivity of the sales tax. Some of the largest exemptions in Wisconsin are listed in the table below. An extended list produced by DOR estimates that taxing the sales of all goods and services would raise an additional \$3.79 billion.

*If food purchases were taxable, they would have raised \$505 million in 2003-04.*

**Exemptions & Lost Revenue**  
Selected Exemptions and 2003-04  
Fiscal Effect (\$ Millions)

<b>Exemption</b>	<b>Lost Revenue</b>
Food	\$505.0
Medical Services	384.0
Manufacturing Equipment	158.6
Computer Services	136.0
Prescription Medicine	119.4
Legal Services	113.0
Agricultural Supplies	77.0

Food is the largest exemption in Wisconsin. Food purchased for home consumption (i.e., at a supermarket) is not taxable. The only exceptions to this rule are nonessential items, such as candy, soda, and alcohol. These, along with food purchased at restaurants, are taxed. Of the 45 states with sales taxes, 29 exempt food from taxation. If food were not exempt in Wisconsin, the state tax on it would have generated \$505 million in 2003-04.

Prescription drugs and medical services are also exempt from the sales tax. States are hesitant to tax them because they do not want to prevent anyone from taking medication or seeing a doctor. Nationally, Hawaii, New Mexico and Washington tax medical services, while only Illinois taxes prescriptions (at 1% of the purchase price). A sales tax on medical services and prescription drugs would have raised \$503.4 million in Wisconsin in 2003-04.

Not all exemptions have a large impact on state finances. For example, repealing the exemption on museum admissions would have generated only \$29,000 in 2003-04. Exemptions range from the patriotic (U.S. and Wisconsin state flags) to the educational (newspapers) to the random (prepaid telephone cards). However, even small exemptions can create complications in sales tax administration.

Opponents of sales tax exemptions argue that their costs outweigh their benefits. Exemptions help the poor by making the sales tax less burdensome, but they can also make it more complicated to administer and undermine public perception of “equal treatment.” Exemptions create gray areas that make it more difficult to know whether an item is subject to the tax.

One solution that some states have adopted is an income tax credit for low-income persons that returns some of the

sales tax they pay. Some of the states that tax food provide these credits. This simplifies administration while simultaneously making the tax less regressive.

### Service Taxation

Unlike goods, services are taxed in Wisconsin only if specified. Only five states (Hawaii, Mississippi, New Mexico, South Dakota and West Virginia) generally tax services. Of 168 services listed by the Federation of Tax Administrators, Wisconsin taxed 74 in 2004, up from 72 in 1996. In both years, Wisconsin ranked 11th in the U.S. in the number of services taxed.

Nationally, 49 states and Washington D.C. taxed an average of 55.2 services in 2004, an increase of 0.5 from 1996. In the eight years between the studies, 15 states taxed additional services, while no state taxed fewer. Hawaii taxed 160 of the 168 services, the most in the nation (see chart below). New Hampshire, Alaska and Oregon, none of which levy broad sales taxes, taxed the fewest. Oregon was the only state to tax no services, while Alaska's only service levy is a 1% collection on hotel rooms.

### USE TAX

The use tax is a complement to the sales tax that allows the state to collect revenue on items purchased outside its borders. The U.S. Constitution prohibits a state from taxing sales that occur in another state. By taxing the use of an item, the use tax pre-

vents consumers from purchasing goods in states other than their own in order to avoid paying sales taxes.

Every state with a sales tax also imposes a use tax. The county, baseball park and football stadium sales taxes also have complementary use taxes.

Unlike the sales tax, which retailers are obligated to collect and pay to the state, the use tax is paid directly by buyers. Later, use taxpayers are reimbursed with a credit for any sales taxes they paid to the state where the purchase was made. This prevents double-taxing purchases.

**Wisconsin ranked 11th in the U.S. in services taxed in 2004.**

### SALES TAX ADMINISTRATION

DOR administers Wisconsin's sales taxes. All sales taxes are sent to DOR, which counts the money and distributes it to the various governments. DOR retains a portion of each tax in order to pay its costs. For the state sales tax, along with the football and baseball taxes, DOR retains 1.5% of revenue. For the other levies, it keeps more. (See table at right.)

Businesses with taxable sales are required to register with DOR. Registration certificates cost \$20. Retailers are responsible for tracking their purchases and paying DOR every pay period. Businesses are required to pay DOR annually, quarterly or monthly based on how much they owe. For their efforts, businesses are allowed a "retailer discount" of 0.5% of all sales tax revenue they receive (or \$10 per pay period, whichever is more).

DOR Fees	
Tax	%
State	1.50%
Baseball	1.50
Football	1.50
County	1.75
Expo	2.55
Resort	3.00

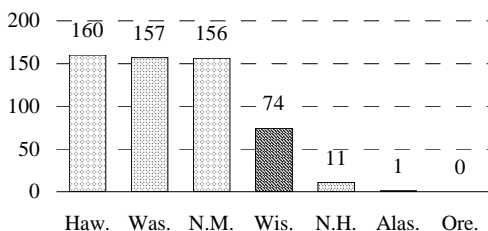
Thus, the administrative cost of the sales tax is 2% for the state and stadium taxes and slightly higher for the other taxing jurisdictions. □

### DATA SOURCE:

Wisconsin Department of Revenue; Legislative Fiscal and Reference Bureaus; John Due and John Mikesell, *Sales Taxation*; U.S. Census Bureau; and Federation of Tax Administrators.

### Service Taxation Varies

Services Taxed, 2004 (U.S. Avg. = 55.2)



## Streamlined Sales Tax Project

The U.S. Supreme Court ruled in 1992 that companies do not have to collect sales taxes in states where they do not have a significant physical presence. Since states define goods differently and over 7,000 districts tax sales nationally, requiring companies to apply the law of each jurisdiction constitutes an undue burden.

With the rise of Internet commerce, this has become a concern for state governments. A University of Tennessee study estimated that untaxed Internet sales could cost state governments \$17.9 billion in 2008.

An effort in 44 states seeks to change that. The Streamlined Sales Tax Project (SSTP) aims to create uniform taxing standards across the U.S., thus making it simple for Internet companies to collect sales taxes in multiple states.

SSTP has two key provisions. The first concerns how goods are defined. For example, many states collect the sales tax on candy, but they all define “candy” differently, creating confusion for interstate businesses. Under the SSTP, “candy” would be defined the same way in all member states. They would still be free to choose

whether to tax it, but companies would know whether an item is “candy” in all SSTP states.

The second key to the SSTP is uniform taxation within states. States will still be able to choose what is and is not taxable, but local taxing authorities must abide by that decision as well. This prevents multiple tax rules within a state.

Currently, 13 states have passed the regulations and are full members of the SSTP. Another six states (associate members) have passed portions of the law and expect to be fully compliant by January 1, 2008.

Wisconsin is not a member state. Legislation bringing the state into compliance with SSTP has been introduced, but it still awaits enactment.

On October 1, 2005, the SSTP database went into effect, allowing companies to register to collect taxes in member states. Since then, 490 businesses have voluntarily done so. □

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### DATA SOURCE:

National Council of State Legislatures; and Wisconsin Department of Revenue.



### Wisconsin Taxpayers Alliance

401 North Lawn Avenue • Madison, WI 53704-5033  
608.241.9789 • www.wistax.org

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