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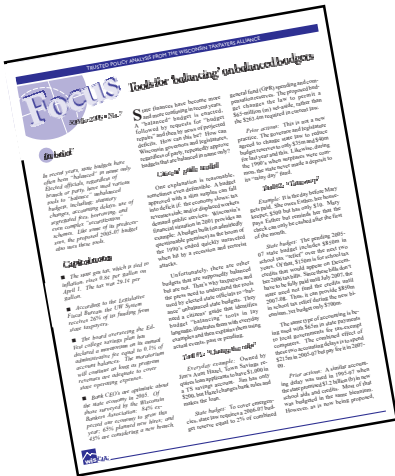
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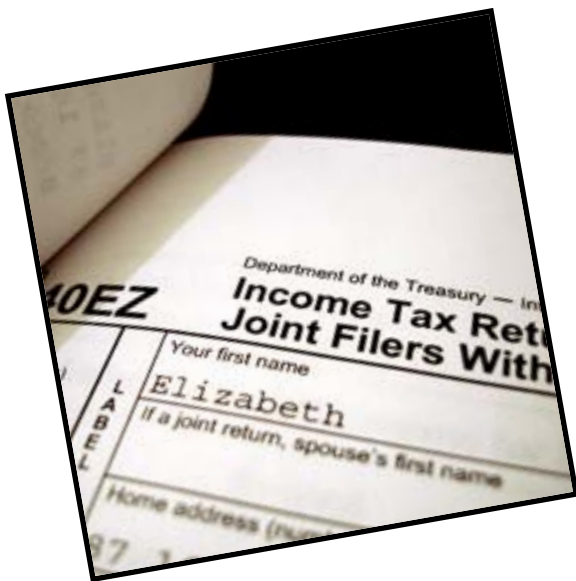
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Info Request



A monthly review of Wisconsin government, taxes, and public finance

The Wisconsin Taxpayer



Also in this issue:

Wisconsin Notes: Wisconsin Wellness;
Rock County Adds Sales Tax

WISTAX Focus: Deficit Day; School
Property Taxes; Tax Time

Wisconsin's Total Taxes: 2006

IN BRIEF

For the third consecutive year, total taxes paid by Wisconsin individuals and firms relative to personal income increased in 2006. They now claim 33.4% of income, up from a 2003 low of 30.7%. Both the federal and state tax burdens increased in 2006, while the local government burden dipped slightly.

- State tax collections rose 5.3%, while federal receipts grew 5.2%. Both increases were smaller than in 2005.
- Local tax collections, primarily property taxes, rose 2.5% in 2006. The increase was the smallest since 1998's 1.8% rise.
- For the sixth consecutive year, sales tax collections increased less than 5%. Prior to 2001, the sales tax rose at least 5% for nine straight years.
- Wisconsin's top income tax rate is 6.75%. Since 1978, when the top rate was 11.4%, it has been lowered five times.
- Personal income rose 4.2% in 2005, lower than 2004's 6.2% increase.

Wisconsin Notes

■ **Wisconsin Wellness.** Wisconsin is moving in contradictory directions on two key health measures. State tobacco use dropped considerably in recent years, while alcohol consumption remained the highest in the nation, according to a U.S. Center for Disease Control survey.

For the fifth straight year, smoking fell here in 2005. At 20.7%, smoking prevalence in the state was just one-tenth of a percentage point above the national average (20.6%). In 2004, Wisconsin was a full point above the U.S. (21.9% vs. 20.9%).

Wisconsin's 2005 alcohol use figures, on the other hand, remained very high. Wisconsin had the nation's highest percentage of both "heavy drinkers" (men who have more than two drinks per day and women who have more than one) and "binge drinkers" (adults having five or more drinks in one occasion). In Wisconsin, 7.5% of the respondents said they were heavy drinkers vs. a national average of 4.9%, while 22.2% defined themselves as binge drinkers vs. 14.4% for the U.S.

■ **Rock County Adds Sales Tax.** Effective April 1, 2007, Rock County will be the 60th county in Wisconsin to add the 0.5% sales tax. According to an estimate from UW-Extension, the tax could raise as much as \$13.1 million per year. Rock County projects the tax will raise \$8.5 million during its first nine months. Just 12 counties, primarily in eastern Wisconsin, have no local sales tax. See "Local Sales Taxes" on page 10 for a complete listing.

WISTAX Focus

■ **Deficit Day.** According to state officials, Wisconsin could face a \$1.6 billion deficit by mid-2009. With talk of a balanced budget during campaign season, this report came as a surprise to many in the media and public. In "'Deficit Day' again observed" (*Focus #25-06*), WISTAX explains the multiple and confusing uses of the term *deficit* and examines what the latest deficit means for the state.

■ **School Property Taxes.** School property taxes are on the rise once again. After a 0.5% drop in 2005-06, total school taxes statewide will be up 5.4% to \$3.79 billion in 2006-07. WISTAX offers reasons for the increase in "School taxes: What a difference a year makes" (*Focus #26-06*). First, governors of both parties have historically tried to lower property taxes before reelection campaigns. Also, many referenda were approved and contributions to community service funds increased in the past year.

■ **Tax Time.** Tax season is around the corner! *Taxes 2007*, Wisconsin's only pocket tax guide, is available from WISTAX. The \$3.50 book has easy-to-follow instructions for filing both federal and state income tax returns. Call WISTAX at 608.241.9789 for details.

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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: 2006

In Wisconsin, total federal, state, and local taxes rose 4.9% in fiscal 2006 to \$61.40 billion. The increase was the fourth smallest in the past 10 years, ahead of only the weak economic years of 2001 through 2003. Total taxes fell in those years due to a combination of a weak economy and federal and state income tax cuts. The 2006 increase was much smaller than 2005's 11.2% jump, perhaps signaling a slowdown in Wisconsin's economy after two years of strong growth.

Wisconsin's state-local tax collections rose 4.3% in 2005-06 to \$22.46 billion. Federal collections from Wisconsin citizens and businesses were up 5.2% to \$38.94 billion.

Total taxes claimed 33.4% of Wisconsin personal income in 2006, up 0.3 points from 33.1% in 2005. As shown in the chart below, total taxes as a percentage of personal income have risen in recent years after falling quickly in the early part of the decade due to tax cuts and a recession. The total tax burden in 2006 was slightly lower than the 25-year Wisconsin average (34.0%) and eighth lowest since 1980.

The small increase in 2006 ended a six-year period of volatility. During 2000 to 2005, taxes as a percentage of income changed more significantly.

HISTORICAL TRENDS

Since 1980, Wisconsin personal income has grown 329% (6.0% per year), from \$42.9 billion to \$184.1 billion. Over the same period, total taxes paid by Wisconsinites have risen 301% (5.7% per year), from \$15.3 billion to \$61.4 billion

(see table on page four). Since income has grown slightly faster than taxes, Wisconsin's tax burden has fallen from 35.6% of personal income in 1980 to 33.4% in 2006. The decline has not been steady, as the chart below shows.

The relative tax burden in Wisconsin has increased in 16 of the last 26 years. These increases have been offset, however, by two periods of steep declines. From 1981 to 1983, total taxes fell from 36.4% of income to 31.9%. And from 2000 to 2003, they fell from 36.8% to 30.7%. Both periods were characterized by tax cuts and recessions. Between those two periods, and since 2003, the tax burden generally rose.

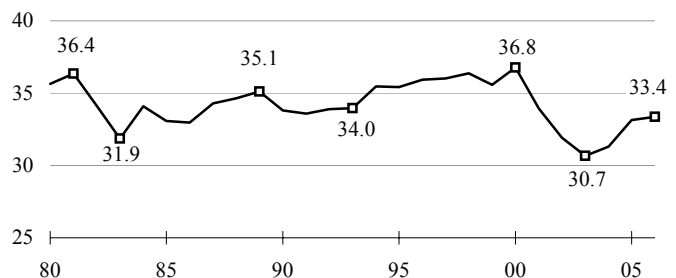
Federal, state, and local taxes paid by Wisconsinites rose 4.9% in 2006 to \$61.4 billion.

1981-1983

During the early 80's, the total tax burden as a share of income fell from 36.4% to 31.9%. The drop was due entirely to falling federal taxes. The combined state-local burden actually increased slightly from 12.0% to 12.3%, while the federal burden decreased from 24.4% to 19.6%.

Collections for the federal individual income tax, the largest single tax paid by Wisconsinites, dropped 6.3%, and corporate

Wisconsin Tax Burden Flat in 2006
Total Taxes as % of Personal Income, 1980-2006



income taxes fell 41.5%. A combination of a recession and federal tax cuts accounted for these drops.

At the state level, the tax burden increased slightly, due in large part to what was planned to be a one-year sales tax increase. The rate rose from 4% to 5% in 1982 to address recurring budget shortfalls, leading to a 25.8% increase in sales tax collections in fiscal year 1983.

Federal, state, and local tax revenues all grew more than 7% per year from 1983 to 1989.

1984-1989

The tax-to-income ratio increased from 31.9% in 1983 to 35.1% in 1989. Total taxes rose in four out of six years, as the economy stabilized and state, local, and federal tax collections all rose. Revenues increased at similar rates: State revenues grew an average of 7.2% per year, while both federal and local receipts averaged 7.8%. Incomes during the period increased a more modest 5.9% per year, which explains the growing tax burden.

1990-1993

After a drop in 1990 due to a mild recession, the tax burden stabilized until 1993. During this period, the percentage of income paid in taxes varied little: from 33.6% (1991) to 34.0% (1993). The federal tax burden dropped slightly during these years, while the state and local burdens increased somewhat.

State revenues rose from 8.3% of income in 1993 to 8.8% in 2000; local revenues dropped from 4.8% to 4.0%.

1994-2000

This period was characterized by strong economic growth and a consistently

increasing tax burden. Taxes grew faster than incomes in five of seven years, and the total tax burden rose from 34.0% in 1993 to 36.8% in 2000. The 2000 percentage remains the highest since at least 1980.

Federally, the tax burden rose due to income tax rate increases and collections buoyed by a strong economy. Capital gains taxes rose 20.5% per year, spurred by a strong stock market and increased stock speculation.

At state and local levels, two major changes occurred during this period. First, in 1997, the state began providing an average of two-thirds of state-local school revenues statewide. The effect was to shift taxes away from local government (via the property tax) and to the state. Consequently, the state tax burden increased from 8.3% in 1993 to 8.8% in 2000, while the local burden dropped from 4.8% to 4.0%.

The other important change was Wisconsin income tax growth and reform. During much of the decade, personal income tax receipts surged, in part because state law was not updated for inflation (or “indexed”). The result was “bracket creep” and erosion of the “real” value of tax credits and the standard deduction. As inflation increased wages, taxpayers increasingly found themselves in higher tax brackets, paying a higher rate.

In 1999, the income tax was once again indexed for inflation with brackets that ad-

Summary of Tax Collections by Source
Amounts, Average Annual Changes, and % of Personal Income (\$ Mill.), 1980-2006

Source	1980	1990	2000	2006	Annual Avg. % Chg.			Taxes as % of Pers. Inc.			
					80-90	90-00	00-06	1980	1990	2000	2006
Federal	\$10,042.6	\$17,671.6	\$34,646.9	\$38,937.6	5.8	7.0	2.0	23.4	21.1	23.9	21.2
State	3,586.8	6,899.2	12,785.7	14,347.9	6.8	6.4	1.9	8.4	8.2	8.8	7.8
Local	1,670.4	3,806.9	5,772.7	8,113.6	8.6	4.3	5.8	3.9	4.5	4.0	4.4
Total	\$15,299.8	\$28,377.7	\$53,205.3	\$61,399.1	6.4	6.5	2.4	35.6	33.8	36.8	33.4
Pers. Inc.	\$42,922.2	\$83,935.6	\$144,702.1	\$184,086.8	6.9	5.6	4.1	-	-	-	-

justed automatically each year. However, by that point, income tax collections had increased 8.1% per year for nearly a decade.

2001-2003

This period saw the total tax burden decrease quickly, as it did 20 years earlier. Federal and state income tax cuts, a slowing economy, and the September 11 terrorist attacks all impacted revenues. The tax burden fell from 36.8% in 2000 to 30.7% in 2003. In three years, Wisconsin went from having its highest tax burden in 20 years to having its lowest.

The drop was driven primarily by falling federal and state revenues; local revenues were impacted less. The property tax, which is the primary source of local government tax revenue, is less sensitive to changes in the economy than income or sales taxes.

An economic downturn and tax cuts combined to lower federal tax revenues 2.3% in 2001, 5.3% in 2002, and 3.9% in 2003. Capital gains tax revenues, which boomed in the 1990's, dropped 57.9% from 2000 to 2003, and corporate income tax collections fell 37.0%.

Similar factors slowed state revenue growth. In addition to reduced income tax rates and expanded deductions and credits, the slowing Wisconsin economy pushed revenues lower. They fell 7.0% in 2001 and 0.1% in 2002, before rebounding and increasing a modest 2.1% in 2003.

Local revenues increased quickly during these years. Unlike that of income or sales taxes, the nature of the property tax allows the taxing authority to revalue its tax bases and change tax rates annually. Consequently, property taxes increased significantly. Static and decreasing state aid put additional pressure on local governments to increase property taxes.

2004-2006

The economy has recovered in recent years, returning the tax burden to historical averages. Most of the growth in the past three years has been due to increasing federal revenues. State revenues have moved up slightly, while local revenues have been stagnant.

STATE TAXES AND FEES

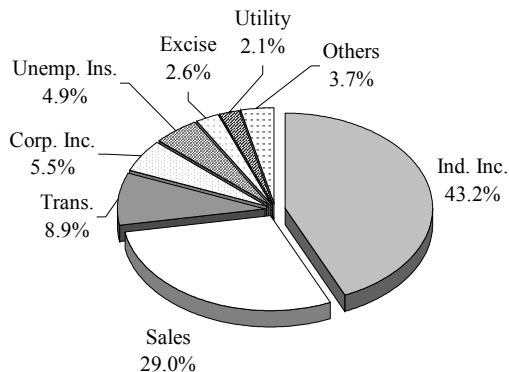
In 2005-06, state taxes and fees claimed \$14.35 billion, or 7.8% of personal income. In recent years, state taxes have varied little relative to income, ranging from 7.4% to 7.8% since 2001.

State taxes at levels below 8% of personal income are a relatively recent development. From 1983 to 2001, state taxes were never less than 8.2% of personal income, and they claimed as much as 9.7% in 1984, after a one-year income tax surcharge.

The state taxes its citizens in a variety of ways, as the chart below shows. Individual income and sales taxes account for nearly three-quarters of state tax collections. Other significant taxes include transportation revenues (primarily the gas tax and vehicle registration fees), corporate income, unemployment insurance, excise, and utility taxes.

Income, Sales Dominate State Taxes

2006 State Taxes by %
(Total = \$14.34 Billion)



From 2000 to 2003, the total tax burden fell from 36.8% of income to 30.7%.

The individual income and sales taxes dominate state collections.

Individual Income Taxes

The individual income tax has been the state's most lucrative for all of modern history. In 2006, individual income tax collections totalled \$6.14 billion, or 43.2% of all state taxes. This broke the previous Wisconsin record for income tax collections of \$5.96 billion set in 2000.

Wisconsin's progressive income tax was the first of its kind among U.S. states. It was first imposed in 1911, two years before the federal income tax. Original state income tax rates ranged from 1% to 6%.

There have been two long periods when the maximum rate rose and fell. Starting in 1932, the top rate was raised five times, reaching its 11.4% peak during 1972-1978. Since then, the top rate has been lowered five times. The current top rate is 6.75%, on taxable incomes over \$132,580 for singles and \$176,770 for married couples.

Indexing and a mild recession have contributed to a lower percentage of personal income paid in income taxes. In 2000, income taxes accounted for 4.1% of personal income. By 2002, that figure had sunk to 3.1%. Since then, with economic recovery, the percentage has risen slightly, up to 3.3% in 2006.

Sales Taxes

Collections from the state sales tax have been second only to the income tax since

1970. Revenues totalled \$4.13 billion in 2006, or 28.8% of all state taxes. The state sales tax claimed 2.24% of personal income in 2006, the smallest share since the sales tax rate was raised to 5% in 1982.

Sales tax growth has been slow in recent years. In 2006, total collections rose just 2.2%, well below the 6.5% average annual increase during the 1990's.

Observers believe that the slowing sales tax growth is attributable to at least two factors. First, growth in population and personal income have slowed in recent years. Historically, sales tax revenue has tracked personal income very closely. Second, Internet purchases free of sales taxes are increasingly common. According to the U.S. Supreme Court, Internet companies are required to charge sales tax only if they have a significant presence in the state. As Internet sales grow, an increasing percentage of consumer spending goes untaxed at the state level.

Corporate Income Taxes

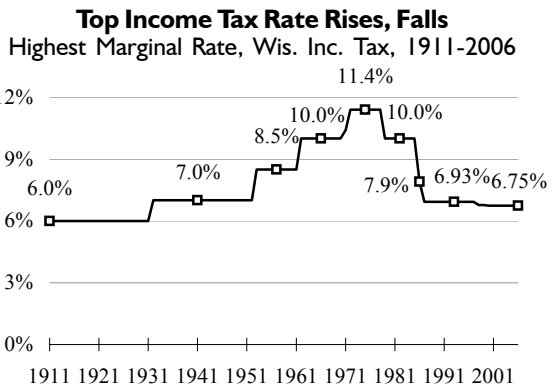
The corporate income tax is the smallest of the "big three" state general purpose taxes. Businesses paid \$780.3 million in state corporate income taxes in 2006. That was 5.5% of the state tax total and accounted for 0.4% of personal income.

After several years of rapid growth, corporate income tax collections rose 2.1% in 2006. Of the big three, this tax is, by far, the most volatile. Unlike sales and individual income taxes, whose collections generally rise when rates are not changed, corporate income taxes rise and fall considerably depending on the health of the economy (see chart on page eight).

In 2001 and 2002, as the economy slowed, corporate income tax collections fell 16.7% and 6.6%, respectively. However, in 2004 and 2005, with recovery, they

Wisconsin's top income tax rate, 6.75%, applied only to income above \$132,580 for single taxpayers in 2005.

The share of income raised via the sales tax was the smallest since the 1982 rate increase.



State and Local Tax Collections, 1996-2006
(\$ Mill.)

Tax/Fee	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
STATE											
Income:											
Individual	\$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	\$6,144.3
Corp.	636.0	643.8	627.0	635.2	644.6	537.2	503.0	526.5	650.5	764.1	780.3
Sales	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	4,127.6
Motor Vehicle:											
Fuel	676.0	693.2	740.2	797.0	809.5	827.5	865.5	902.5	934.6	955.5	974.1
Vehicle Reg.	227.4	228.1	259.8	274.7	289.7	289.5	302.7	299.7	347.9	354.9	381.7
Drivers' Licenses	21.3	22.7	27.1	33.2	35.6	35.6	33.4	30.0	30.8	31.4	31.3
Limo/Car Rental	-	-	-	2.9	3.4	4.1	3.5	3.4	3.5	3.9	5.0
Excise:											
Cigarette	198.0	204.6	247.7	257.4	247.6	243.5	288.8	293.7	291.3	294.3	301.5
Tobacco Products	7.4	8.8	9.4	9.4	10.3	11.4	13.9	15.5	16.1	15.8	16.4
Liquor & Wine	30.8	31.4	32.7	32.9	34.6	35.5	36.0	36.0	38.5	39.5	41.0
Beer	9.2	9.2	9.3	9.2	9.4	9.4	9.6	9.5	9.6	9.8	9.8
Public Utility:											
Electric & Gas	107.4	109.2	111.9	118.5	122.7	138.0	144.8	148.7	167.2	161.5	191.5
Telephone	160.1	176.4	158.5	149.4	114.7	80.4	86.6	106.3	81.6	72.6	63.0
Railroad	25.2	12.3	10.0	12.1	11.5	1.3	12.0	12.5	11.9	16.0	16.4
All Others	26.5	29.4	24.3	28.3	32.2	30.7	26.9	28.1	29.6	26.5	25.6
Unemp. Comp.	416.8	413.2	415.7	426.1	448.6	438.9	431.5	475.7	548.1	656.1	700.3
Insurance Premiums	101.6	102.2	94.0	105.7	95.3	99.3	107.4	128.2	138.4	144.9	150.8
Inheritance & Estate	45.4	50.7	80.0	116.8	133.3	77.1	82.6	68.7	86.4	112.3	108.1
Gift	0.2	0.2	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Real Estate Transfer	39.2	41.9	48.1	55.0	56.6	55.3	64.0	57.4	66.3	77.2	80.5
Recycling Surcharge	41.6	51.5	53.6	35.8	9.6	26.3	12.5	15.4	25.5	13.2	19.5
Petroleum Inspection	101.3	105.7	103.8	110.7	105.2	91.0	88.7	93.7	92.6	86.6	71.3
Conservation Fees ¹	62.4	68.0	75.0	92.2	88.0	73.3	72.4	72.2	73.1	75.7	84.3
Pari-mutuel	5.0	3.9	3.6	3.4	3.0	2.9	3.0	2.1	1.9	1.6	1.2
Miscellaneous	21.3	16.6	15.7	15.9	16.6	15.7	17.3	18.3	18.6	20.9	22.2
Total State	\$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	\$14,347.9
LOCAL											
Gen. Prop.	\$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	\$8,326.7
State Credit	-319.3	-469.3	-469.3	-469.3	-469.3	-469.3	-469.3	-469.3	-469.3	-469.3	-469.3
Lottery Credit	-156.2	-	-205.8	-142.7	-216.2	-90.6	-105.0	-105.1	-118.2	-133.1	-117.5
Net Levy	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	7,739.9
Room	25.5	28.0	31.7	30.4	36.4	38.9	36.1	37.1	38.5	41.0	42.7
Sales	146.0	156.3	165.1	168.7	194.5	219.2	226.5	234.9	241.6	264.3	265.7
Motor Vehicle	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.5	0.5	0.6	0.5
Local Expo.	9.8	11.0	11.1	13.3	12.8	14.2	14.0	14.5	15.1	15.2	16.6
Premier Resort Sales	-	-	-	0.6	1.0	1.2	1.3	1.6	1.8	1.9	2.1
Stadium ²	5.5	16.5	18.3	20.7	21.9	30.3	43.0	44.0	46.6	46.4	46.1
Total Local	\$5,450.8	\$5,121.1	\$5,187.6	\$5,597.3	\$5,772.7	\$6,348.9	\$6,790.7	\$7,121.7	\$7,443.9	\$7,917.8	\$8,113.6
TOTAL STATE & LOCAL	\$15,298.7	\$15,566.3	\$16,430.0	\$17,365.9	\$18,558.4	\$18,239.1	\$18,672.2	\$19,255.8	\$20,284.2	\$21,541.1	\$22,461.5
Total Personal Inc.	\$115,180	\$121,718	\$129,099	\$138,667	\$144,702	\$153,548	\$158,888	\$163,309	\$168,278	\$176,728	\$184,087
Taxes as % of											
Personal Income	13.3%	12.8%	12.7%	12.5%	12.8%	11.9%	11.8%	11.8%	12.1%	12.2%	12.2%

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.

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 reestimates.

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.

jumped 23.5% and 17.5%, respectively. The 2% increase in 2006 may suggest that an economic slowdown is ahead.

Motor Vehicle Taxes and Fees

Motor vehicle taxes and fees include the motor fuel (gas) tax, vehicle registration fees, driver's license fees, and limousine and car rental taxes. In total, these taxes and fees rose 3.4% in 2006 to \$1.39 billion.

Motor Fuel Tax. The majority of transportation revenues come from the motor fuel tax. Wisconsin's gas tax is currently 30.9¢ per gallon, the highest in the nation when excluding states that also charge sales tax on gasoline. There is also a 3¢ per gallon charge for the Petroleum Environmental Cleanup Fund, which funds cleanup costs of petroleum storage system and home heating oil system discharges.

Gas tax revenues were \$974.1 million in 2006, a 1.9% increase from 2005. The increase was the second smallest since 1996. One reason for the smaller increase was high gas prices, which encouraged less driving. The total number of vehicle-miles traveled (VMT) in 2006 rose just 0.5%. By comparison, VMT increased an average of 2.4% from 1980 to 2005.

From 1985 through 2006, the gas tax increased automatically each year accord-

ing to the rate of inflation. However, a law enacted in the 2005 legislative session has ended this practice.

Registration Fees. Unlike gas tax collections, registration fees rose considerably in 2006. Payments increased 7.6% in 2006, the largest increase in eight years, excluding 2004 when the fee was raised.

The current vehicle registration fee is \$55, but it could rise in the near future. The Department of Transportation (DOT) has asked to hike the fee to \$80, while the governor has indicated support for a \$10 increase to \$65.

Driver's License Fees. The fee to renew a Wisconsin driver's license is \$24. In 2006, license collections raised \$31.3 million, down 0.4% from 2005. DOT has asked to increase the charge to \$34 in its 2007-09 budget request.

Unemployment Insurance Taxes

Wisconsin's unemployment insurance (UI) tax raised \$700.3 million in 2006, up 6.7% from \$656.1 million in 2005. Though considerable, the increase was the smallest since 2002, when collections fell 1.7%. Since 2002, UI revenues have risen 62.3%.

The UI tax is paid by employers to fund an account from which the state pays unemployment benefits to jobless workers. The rate varies from 0.05% to 9.80% of payroll and depends on two factors: an employer's reserve and total payroll.

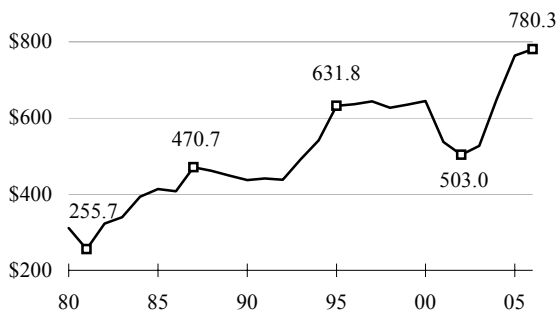
Employer reserve is measured by comparing an employer's contribution to the fund against the money withdrawn to pay former employees of that employer. The reserve is measured as a percentage; higher percentages mean the employer deposits more than the state withdraws. As the reserve percentage grows, the UI rate falls.

A company's payroll also impacts the UI rate. Companies with a taxable payroll

The 30.9¢ gas tax generated \$974.1 million in 2006.

Unemployment insurance collections have risen 62.3% in four years.

Corporate Income Collections Rise
Wisconsin Corporate Income Tax Collections (\$ Mill.), 1980-2006



of at least \$500,000 pay as much as 0.2% more than companies with smaller payrolls.

Collections have increased in recent years due to increasing layoffs during the past recession and an across-the-board rate increase. Reserves generally fell during the recession in the early part of the decade. Consequently, many employers began paying a higher UI rate. Furthermore, all UI rates were increased in 2005, which contributed to a 19.7% increase in collections that year.

Excise Taxes

Wisconsin levies excise taxes on tobacco and alcohol. Together, these taxes generated \$368.7 million in 2006, or 2.6% more than in 2005.

Cigarette and Tobacco Taxes. Wisconsin's cigarette tax is 77¢ per pack, 26th highest in the U.S. The highest cigarette taxes are in Rhode Island (\$2.46 per pack) and New Jersey (\$2.40); the lowest are in South Carolina (7¢) and Missouri (18¢).

The cigarette tax is by far the largest of Wisconsin's excise taxes, raising \$301.5 million in 2006. Collections rose 2.4% over 2005. Cigarette taxes have been fairly flat since 2002, when the tax rate was last raised. Since then, collections have grown just 1.1% per year.

The state also taxes other tobacco products (e.g., cigars and loose tobacco) at 25% of the manufacturer's list price. In 2006, the tobacco products tax raised \$16.4 million, up 3.7% from 2005.

Alcohol Taxes. Wisconsin also imposes several taxes on alcohol. The state's beer tax is \$2 per 31-gallon barrel (6¢ per gallon), the second-lowest rate in the United States. Wyoming's 2¢ per gallon levy is lower.

Wisconsin's beer tax generated \$9.8 million in 2006. Collections were flat compared with 2005.

Liquor and wine are also taxed by the state. The liquor tax is \$3.25 per gallon, while the levy on wine is 25¢ to 45¢ per gallon, depending on the alcohol content. Liquor taxes range considerably in the United States: New Hampshire and Wyoming do not tax it, while Washington, where the state government controls all sales, collects \$21.15 per gallon.

Wisconsin's liquor and wine tax generated \$41.0 million in 2006, up 3.7% from 39.5 million in 2005.

Public Utility Taxes

Public utility taxes are paid in lieu of property taxes. Utility tax collections were \$296.6 million in 2006, or 7.2% more than 2005. The increase was the first since 2003 and just the third in the last seven years. From 1996 to 2006, utility tax revenues fell 7.1%, or 0.7% per year.

The largest amount of utility taxes in 2006 were paid by electric and gas (\$191.5 million), telephone (\$63.0 million), and railroad (\$16.4 million) companies.

Other State Taxes and Fees

Various other state taxes and fees, including the estate tax, real estate transfer fee, and petroleum inspection fee, totalled \$539.6 million, or 3.8% of the 2006 state total. The amounts are listed in the table on page seven.

LOCAL TAXES

Local taxes generated \$8.11 billion and accounted for 4.4% of personal income in 2006, down from 4.5% in 2005. For the first time since 2000, local taxes fell as a percentage of personal income.

Property taxes accounted for 95.4% of all local taxes in 2006. Though high,

Cigarette tax revenues were up 2.4% in 2006; beer tax collections were flat.

More than 19 out of every 20 local tax dollars were raised via the property tax.

the percentage has fallen during the past 20 years, due to the addition of county and other local sales taxes. In 1986, property taxes represented 99.6% of all local taxes.

Net property taxes rose 2.5% to \$7.74 billion in 2006.

Property Taxes

Wisconsin's gross property taxes were \$8.33 billion in 2006, an increase of 2.2% over 2005. Subtracted from gross taxes are two credits, the school aid credit and the lottery credit. The resulting net total was \$7.74 billion, up 2.5% in 2006.

The school levy credit was \$469.3 million, as it has been since 1997. In 2007, it will rise to \$593.2 million. The lottery credit, which is determined by state lottery sales, was \$117.5 million, down 11.7% from \$133.1 million in 2005.

Due in part to various revenue limits on municipalities, counties, and school districts, the property tax increase was the smallest since 1997. Counties and municipalities were limited to levy increases of 2% or the increase in property values due to new construction, whichever was greater. Schools received an influx of state aid, which "bought down" their reliance on property taxes.

Wisconsin's net property taxes accounted for 4.2% of personal income in 2006 vs. 4.3% in 2005 and 3.8% in 2000. Since 1980, Wisconsin net property taxes have claimed an average of 4.2% of income.

Local Sales Taxes

Wisconsin counties have been allowed to collect a 0.5% sales tax since 1969, but none did until 1986. Prior to that year, counties were required to distribute any sales tax revenue to municipalities within the county. Thus, county boards had little incentive to adopt the tax.

That changed in 1986, and Barron and Dunn counties became the first counties

to impose a sales tax. Today, 59 of the state's 72 counties use it. Most recently, Florence County began collecting it in July 2006. Effective April 1, 2007, Rock County will become the 60th to tax sales. Only Brown, Calumet, Clark, Fond du Lac, Kewaunee, Manitowoc, Menominee, Outagamie, Racine, Sheboygan, Waukesha, and Winnebago do not collect a county sales tax.

In calendar year 2005, sales tax collections totalled \$265.7 million, up just 0.5% over 2004. Total county sales tax collections have grown faster than state collections, but only because new counties have consistently added the sales tax. In 2004, county sales tax revenues rose 9.4%.

There are several other local sales taxes in Wisconsin. The Miller Park sales tax is a 0.1% levy on all taxable sales in Milwaukee, Ozaukee, Racine, Washington, and Waukesha counties. It raised \$25.2 million in 2006. The Lambeau Field sales tax, a 0.5% levy in Brown County, generated \$20.8 million in 2006.

Lastly, the premier resort sales tax allows resort destinations to collect 0.5% of sales from "tourism-related" retailers. In fiscal year 2006, Lake Delton, Wisconsin Dells, and Bayfield collected the tax. On October 1, 2006, Eagle River joined them. Collections totalled \$2.1 million in 2006, a 9.7% increase over 2005.

Other Local Taxes

Local taxes on hotel rooms and car registrations, as well as Milwaukee's exposition tax, account for the remainder of local tax revenue. Current room tax projections estimate that 2005 calendar-year collections were \$42.7 million, a 4.3% increase from 2004. The "wheel" tax is collected only by Beloit and Sheboygan, and it raised \$0.5 million in 2006. Sheboygan's

County sales tax revenues increased just 0.5% to \$265.1 million in 2005.

tax will no longer be collected starting January 1, 2007.

Finally, Milwaukee County's exposition tax on hotel rooms, car rentals, and restaurant service raised \$16.6 million, up 9.2% in 2006.

STATE AND LOCAL COMBINED

Wisconsin's state and local tax burden as a share of income was essentially flat in 2006, rising only slightly from 12.19% to 12.20%. Nevertheless, the percentage was the highest since 2000, when state-local taxes claimed 12.8% of income.

Though the combined burden was virtually unchanged, there was a slight shift toward state and away from local taxation. State tax collections rose from 7.7% of income to 7.8%, while local revenues fell from 4.5% to 4.4%.

As the chart below shows, the state-local burden today is well below the average of the 1980's and 1990's. Although taxes are up since 2001, they are well below peaks in 1984 (14.1%) and 1994 (13.5%).

FEDERAL TAXES

The federal government is, by far, the largest taxing jurisdiction in the United States. Federal tax collections in Wisconsin totalled \$38.94 billion in 2006, a 5.2% increase from \$37.02 billion in 2005. Federal taxes claimed 21.2% of income in

2006, an increase from 20.9% the previous year. Federal taxes were 73.4% more than state and local taxes combined.

In addition to dwarfing the state and local taxes, federal taxes have also grown faster. From 1996 to 2006, federal taxes rose 49.3%, while state-local collections increased 46.8% (see table on page 12).

Income Taxes

Individual. The federal individual income tax is the largest single tax paid in Wisconsin. It generated \$16.78 billion in 2006, accounting for 43.1% of all federal taxes paid and 9.1% of personal income. Individual income tax collections rose 6.9% in 2006. Combined with the 13.8% increase in 2005, collections have grown 21.7% since 2004.

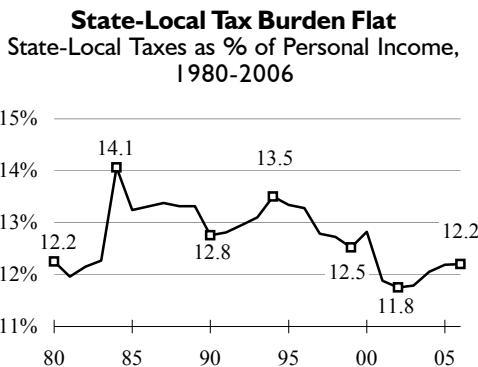
Despite this recent growth, income taxes relative to personal income have fallen considerably since 2000. That year, the federal individual income tax claimed 11.5% of Wisconsin income.

Corporate. Federal corporate income taxes totalled \$5.10 billion in 2006, down 0.4% from \$5.12 billion in 2005. They accounted for 2.8% of personal income, slightly less than the 2.9% recorded in 2005.

Similar to state corporate income taxes, federal collections are volatile and heavily impacted by the health of the economy. Preceding the flat growth of 2006, collections jumped 43.4% in 2004 and 47.1% in 2005. Before that, collections fell in four out of five years. From 2003 to 2005, corporate income taxes increased as a percentage of personal income from 1.5% to 2.9%.

The state-local tax burden increased for the fourth consecutive year.

Federal taxes rose 5.2% in 2006 to \$38.94 billion.



continued on page 12

DATA SOURCE:

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

continued from page 11

Employment Taxes

Social Security. Social security taxes generated nearly as much revenue for the federal government as the individual income tax in 2006. Total Wisconsin collections were \$14.62 billion, or 7.9% of personal income.

Revenue comes from two taxes. Employers and employees both pay 6.2% of income in return for future retirement benefits. In 2006, the tax applied on incomes up to \$94,200. In 2007, the limit will grow to \$97,500.

Second, both employers and employees pay a 1.45% tax to the Medicare trust fund. There is no income limit on this tax.

Unemployment Taxes. The other major federal tax on employment pays for federal unemployment benefits. In 2006, the tax raised \$921.1 million, or 8.3% more than in 2005.

Other Federal Taxes

Income and employment taxes accounted for 94.4% of Wisconsin's tax payments to the federal government. The remaining 5.6% was raised via excise taxes, customs duties, and estate and gift taxes.

Federal Taxes in Wisconsin 1996 and 2006 (\$ Mill.)

Type of Tax	Amount		%
	1996	2006	
Ind. Income	\$11,924.1	\$16,784.1	40.8%
Corp. Income	3,218.4	5,098.1	58.4
Subtotal	\$15,142.6	\$21,882.2	44.5
Social Security	\$9,159.0	\$14,619.4	59.6
Unemp. Ins.	553.3	921.1	66.5
State Deposit	-439.5	-697.4	58.7
Subtotal	\$9,272.8	\$14,843.1	60.1
Excise/Duties	\$1,430.1	\$1,857.8	29.9
Estate/Gift	241.0	354.5	47.1
Total	\$26,086.5	\$38,937.6	49.3%

Excise taxes, including levies on gas, alcohol, tobacco, and other products, raised \$1.38 billion in 2006, just 0.2% more than in 2005. Since 1999, excise taxes have fallen 0.9%. Customs duties were up 10.6% to \$468.5 million.

Estate and gift tax collections generated \$354.5 million in 2006. In both 2006 and 2007, only estates with taxable values of more than \$2 million must pay the estate tax. □

Total federal taxes paid by Wisconsinites rose 49.3% from 1996 through 2006.



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