

## Uncovering “Hidden” Taxes

### Taxes and Fees Consumers May Not Know They Pay

*State and federal governments impose a variety of taxes that go largely unnoticed but can add up to significant sums. Taxes on gas, tobacco, and alcohol are not seen by consumers, but are paid by them because they are “hidden” in the price. Telephone and electric bills also include a variety of taxes that are unfamiliar to citizens, yet generate millions of dollars.*

When people “talk taxes,” they usually refer to property or income taxes, and occasionally sales taxes. That is not surprising as these three account for the vast majority of Wisconsin taxes paid.

However, citizens pay many other federal, state, and local taxes or fees nearly every day that go unseen because they are embedded in the price, or because they are small relative to the “big three.”

Such “hidden” taxes collectively generate significant amounts of money and deserve more than passing attention.

#### **TAXING RECREATION**

Wisconsin is known as a hunting and fishing state. And, while hunt-

ers and anglers are familiar with the cost of state sports licenses, many are unaware of the hidden taxes on much of the equipment they purchase.

#### **Fishing Equipment**

For example, the federal government imposes a variety of taxes on firms manufacturing fishing equipment. These taxes are embedded (or hidden) in the price a buyer pays.

For most fishing equipment—rods, reels, line, bobbers, and artificial bait—the U.S. tax imposed on the manufacturer is 10% of the price charged to the distributor. For fishing poles and rods, the maximum tax is \$10. In other words, if a manufacturer charges a distributor \$75 for a

new pole, a \$7.50 hidden tax is added to the ultimate retail price. Tackle boxes and electric outboard motors are taxed at 3% of the sale price.

While this is a federal tax, Wisconsin receives some of the revenue. Collections go to a federal trust fund and are returned to states to support programs related to fish restoration, aquatic education, boating access and infrastructure, among others. In 2016, \$361.1 million was distributed from the fund, with \$11.9 million (3.3%) going to Wisconsin.

#### **Also in this issue:**

- Job Growth, Firm Creation Lags
- More High Schoolers Taking AP Tests
- Government Employment Rises

## Shooting and Archery

The federal government also imposes a tax of 11% on a manufacturer's sale price of rifles, shotguns, and ammunition. The tax is 10% of the price of pistols and revolvers.

Archery equipment is also taxed. The federal excise tax is 11% on bows, quivers, and broadheads (arrow tips). Arrows are taxed at 49¢ per shaft.

These taxes date to the 1919 Pittman-Robertson Act. Revenues are distributed among the states and used for: wildlife management, conservation, and research; hunter education; and shooting ranges. In 2016, Wisconsin received \$21.0 million (3.0%) of the \$695.1 million distributed.

## TAXING VACATIONS

While Wisconsin has no hidden taxes on fishing and hunting, local governments impose two little-known taxes on leisure activities.

### Premier Resort Area Tax

Vacationers heading to one of several areas of the state known for tourism will likely encounter the Premier Resort Area Tax, or PRAT. This is a local-option sales tax that the state authorizes only for a few municipalities with significant tourism activity.

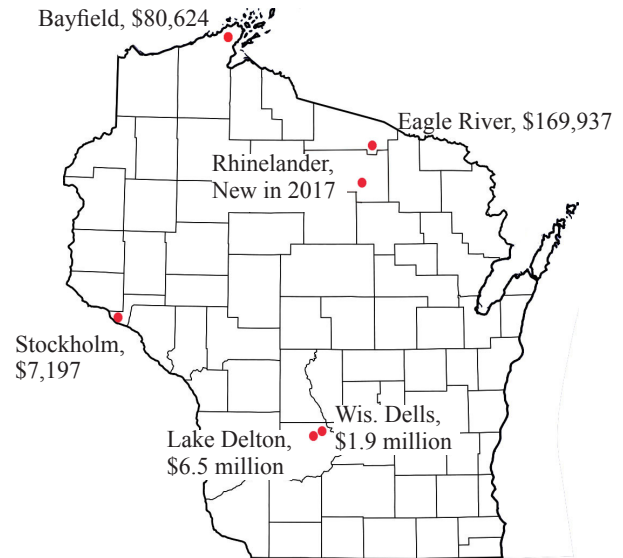
Communities adopting the tax charge a local sales tax—in addition to the state and any county taxes—on purchases from “tourism-related” retailers. For a municipality to be eligible for the tax, such retailers must account for at least 40% of the property tax base. The state has created two exceptions to the 40% rule—Ephraim and Sister Bay, both in Door County—though neither has yet to authorize the resort tax.

As created in the 1997-99 state budget, the tax originally applied only to Lake Delton and Wisconsin Dells, and was set at 0.5%. Both authorized the tax in 1998. Bayfield added a PRAT in 2003, followed three years later by Eagle River. More recently, the tax was authorized by Stockholm (Pepin County) in 2014 and Rhinelander in 2017.

In 2009, lawmakers allowed Lake Delton and Wisconsin Dells to increase their rates to 1.0%. In 2013, they permitted a second increase to 1.5%.

Lake Delton in the Dells area collects by far the most from this tax (see Figure 1), \$6.5 million in 2015. Wisconsin Dells collected \$1.9 million. The three other municipalities imposing the tax in 2015

**Figure 1: Premier Resort Area Taxes (PRAT)**  
Municipalities With PRAT and 2015 Collections



collected far less: Eagle River, \$169,937; Bayfield, \$80,624; and Stockholm, \$7,197.

## Room Taxes

Wisconsin allows municipalities to collect taxes on rental of hotel and motel rooms. The room tax is

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one of the few local-option taxes the state allows municipalities to impose. In the six PRAT municipalities, that tax is also imposed on the room price.

Wisconsin places several requirements on municipalities imposing a room tax. The tax rate may not exceed 8% of the rental price, and at least 70% of the revenue must be used for “tourism promotion and development.”

In 2014 (the last year data were available), 285 Wisconsin municipalities raised \$73.1 million in room taxes. During 2004-14, the number imposing the tax climbed from 210 to 285. Collections rose from \$48.0 million in 2005 to \$73.1 million in 2014.

### TAXING DRIVING

Wisconsin drivers are familiar with the gas tax, particularly in light of recent publicity surrounding the state’s transportation funding dilemma. But many do not know the gas tax rate or how much they pay annually. Drivers may also be unaware of other vehicle-related federal taxes.

#### Gas Taxes

*State Tax.* Wisconsin imposes a tax of 30.9¢ on each gallon of gas sold. Revenues are deposited in the state transportation fund. An additional 2¢ per gallon is added to fund Petroleum Environmental Cleanup Fund Awards (PECFA), bringing the total tax to 32.9¢ per gallon.

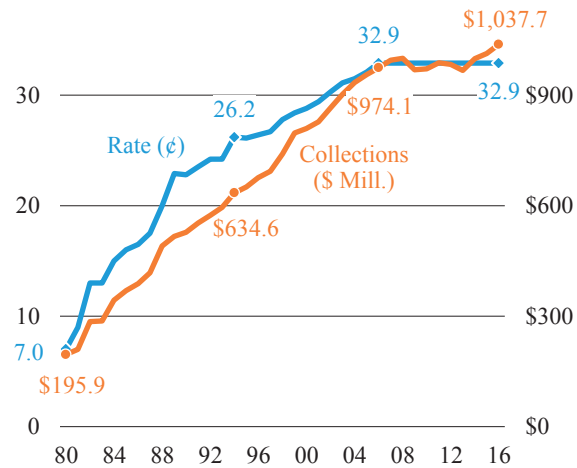
As of January 1, Wisconsin’s gas tax was eighth highest nationally. The highest state gas taxes were in Pennsylvania (58.2¢ per gallon), Washington (49.4¢), and New Jersey (37.1¢).

Some states permit local governments to impose a gas tax as well. In these states, total gas taxes vary by location. For example, Illinois’ state gas tax is 20.1¢ per gallon. However, Cook County (home to Chicago) imposes an additional 6¢ and the city of Chicago another 5¢ per gallon. Thus, gas taxes in Illinois range from 20.1¢ in areas without a local tax to 31.1¢ per gallon in Chicago.

Illinois and some other states, including Michigan, also impose state and local sales taxes on gasoline. Since the gas tax is hidden in the retail price, the sales tax applies to both the price of gasoline and the gas tax. Wisconsin does not impose the sales tax on motor fuel.

During 1980-2006, Wisconsin’s gas tax increased most years (see Figure 2, blue line). Most of the

**Figure 2: Wisconsin Gas Tax Flattens**  
Per Gallon Rate (¢) and Collections (\$ Mill.) 1980-2016



growth was automatic, the result of annual indexing (adjusting the tax rate for inflation) that began in April 1985 and ended in April 2006. During those years, the state gas tax more than doubled from 15¢ to the current 32.9¢ per gallon.

State gas tax collections (orange line in Figure 1) have generally moved with the rate. During 1980-2006, while the rate was steadily increasing, collections followed, rising five-fold. With the rate unchanged since then, collections stagnated before rising slightly over the past two years as the economy recovered.

*Federal Tax.* In addition to a state gas tax, the federal government imposes a tax of 18.4¢ per gallon on motor fuels. The tax has been unchanged since 1993, when it was raised from 14.1¢ per gallon to its current 18.4¢.

Combined, federal and state gas taxes in Wisconsin total 51.3¢ per gallon. An individual driving 12,000 miles per year in a vehicle averaging 20 miles per gallon would pay almost \$310 annually in gas taxes.

#### Gas Guzzler Tax

Gas taxes are not the only hidden tax on driving. Buyers of cars that average less than 22.5 miles per gallon pay a hidden “gas guzzler” tax imposed by the U.S. government. The tax is paid by the manufacturer, but is passed on in the price. The amount of tax can be found on the new car sticker.

Created during the 1970s energy crisis, the gas guzzler tax applies to cars under 6,000 pounds; light

trucks and SUVs are exempt. The amount of tax depends on fuel efficiency and ranges from \$1,000 for cars averaging 21.5 to 22.5 miles per gallon to \$7,700 for those averaging less than 12.5 miles per gallon.

Collections totalled less than \$60 million in 2015, down from more than \$200 million in 2006. Increases in fuel efficiency and a continued consumer shift from cars subject to the tax to untaxed SUVs and light trucks help explain the drop in collections.

## TAXING ALCOHOL AND TOBACCO

“Sin” taxes are among the oldest taxes in North America. They are imposed on manufacturers and included in product prices. Both Wisconsin and the federal government tax alcoholic beverages and tobacco products.

### Beer, Wine, and Liquor

All states tax beer. All with private liquor sales tax wine and liquor. In 17 states, government controls sale of distilled spirits through state-run liquor stores.

With its long beer-making history, Wisconsin has some of the nation’s lowest taxes on alcohol.

*Beer Tax.* Wisconsin taxes beer (malt beverages) at \$2 per barrel, or about 15¢ per (24-can) case (see Table 1). The tax was established in 1969 and has remained unchanged since. It is imposed on:

- Wisconsin brewers based on in-state sales;
- Wisconsin wholesalers based on imports from another country; and
- Out-of-state shippers based on the amount brought into Wisconsin from another state.

For small Wisconsin brewers—those producing fewer than 300,000 barrels per year—a 50% credit is available for the first 50,000 barrels. For perspective,

**Table 1: Hidden “Sin” Taxes Vary**  
State and Federal Taxes on Alcohol, Cigarettes, 2017

	Wis.	U.S.	Total
Case of beer	\$0.15	\$1.31	\$1.46
1 Liter Bottle of Liquor			
80-Proof	0.89	2.86	3.75
30-Proof	0.89	1.07	1.96
750 ml. Bottle of Wine			
<12% Alcohol	0.05	0.21	0.26
>14% Alcohol	0.09	0.31	0.40
Pack of Cigarettes	2.52	1.07	3.59

one of the state’s largest microbreweries produces about 200,000 barrels per year.

Two states have lower beer taxes than Wisconsin: Wyoming (59¢ per barrel) and Missouri (\$1.86). In neighboring states, beer taxes range from \$4.60 per barrel in Minnesota to \$7.16 in Illinois.

The U.S. government also taxes beer, with the last change occurring in 1991. For most beer, the federal tax is \$18 per barrel, or about \$1.31 per case. However, the tax is tiered for those producing less than two-million barrels per year. The federal government taxes those brewers \$7 per barrel for the first 60,000 and \$18 per barrel for the remainder.

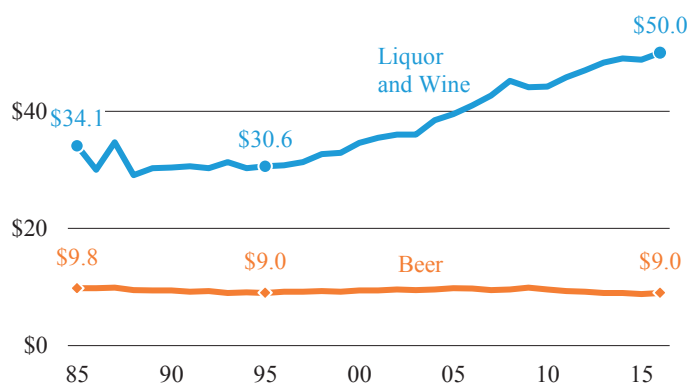
In 2016, the state collected \$9.0 million in beer taxes on about 4.5 million barrels sold. Since 1985, collections have fluctuated from \$8.8 million in 2015 to \$9.9 million in both 1987 and 2009 (see Figure 3).

*Liquor and Wine Taxes.* Wisconsin taxes liquor at 86¢ per liter, regardless of alcohol content. It imposes an additional 3¢ per liter administration fee, bringing the total to 89¢ per liter.

Some states, and the federal government, tax liquor based on alcohol content, which makes comparisons difficult. For example, Illinois imposes a tax of \$2.26 per liter on liquor that is more than 40 proof (20% alcohol), but only 37¢ on liquor with lower alcohol content. Thus, it taxes “high-alcohol” liquor about 2.5 times more than Wisconsin, but taxes “low-alcohol” liquor less than the Badger State.

The federal government’s liquor tax is also based on alcohol content: The higher the proof, the higher the tax. The tax is \$3.57 per liter of 100-proof liquor. If the liquor is 80 proof, the tax is 80% of the \$3.57, or \$2.86. Combining U.S. and state taxes, residents pay \$3.75 on a liter of 80-proof liquor.

**Figure 3: Collections From Liquor, Wine Taxes Rise**  
State Alcohol Collections, \$ Millions, 1985-2016



Both Wisconsin and the U.S. government also tax wine at tiered rates. Here, the tax is 25¢ per gallon (5¢ for a 750 ml. bottle) for wine with less than 14% alcohol and 45¢ per gallon (9¢ per bottle) for wine with higher alcohol content.

The federal tax on wine is about four times higher than Wisconsin's. For wine under 14% alcohol, the tax is \$1.07 per gallon. It is \$1.57 per gallon for wine with an alcohol content between 14% and 21%, and \$3.15 per gallon for other wine.

While state beer tax collections have changed little in 30 years, liquor and wine tax revenues have risen steadily since about 1995 (see Figure 3, page 4). In that year, collections totalled \$30.6 million. By 2016, liquor and wine collections totalled \$50.0 million, or 63% more. For comparison, state sales tax collections grew 97% during the same years.

**Tobacco Taxes.** The other main product that falls in the "sin" tax category is tobacco. State tobacco taxes have been raised several times over the past 15 years, sometimes significantly.

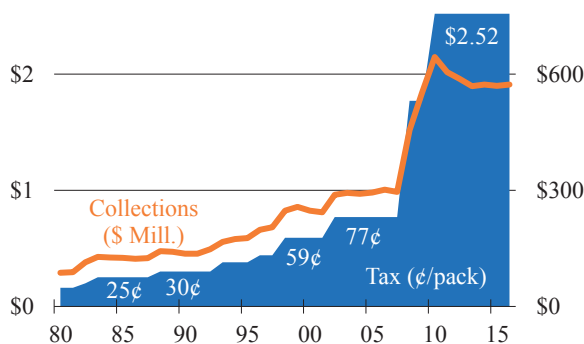
Wisconsin taxes cigarettes at \$2.52 per pack, almost six times higher than 20 years ago. Since 1997, the tax has been increased four times. The last two increases raised the tax by \$1 and 75¢ per pack, respectively (see Figure 4).

As of January 1, Wisconsin's cigarette tax was 11th highest nationally. Among neighbors, only Minnesota (\$3.04) has a higher rate.

The federal government imposes a tax of \$1.01 per pack, bringing the total tax to \$3.53 for a pack of cigarettes sold in Wisconsin.

Like the gas tax, the biggest changes in cigarette tax collections follow rate increases. However, while gas tax collections rise, albeit slowly, with rate chang-

**Figure 4: Wis. Cigarette Taxes Surge**  
Tax Per Pack (Blue), Coll's in Mill. (Orange), 1980-2016



### Who Pays Business Taxes?

People generally understand that taxes such as those on cigarettes, motor fuels, and liquor are ultimately paid by the consumer, even though they are imposed by government on the manufacturer.

Companies pay many other state and federal taxes as well, including income, property, and sales taxes. However, these are generally seen as costs of doing business, like the cost of materials and labor. Economists note that these taxes are ultimately borne by individuals in one of three ways.

First, if a tax is imposed and a company changes nothing, its profits decline by the amount of the tax. For a small business, this means the *owner's income* falls. For larger companies, the tax is borne by *owners*, the shareholders. Second, a company could increase prices by the amount of the tax, passing the cost to the *consumer*. Third, if a company is in a very price-competitive industry, it may have to reduce other costs, such as wages or benefits. In that case, *employees* ultimately pay the tax in the form of lower compensation.

While economists agree that business taxes are ultimately paid by individuals, there is not consensus as to how much is passed through to owners, consumers, or employees.

es, cigarette tax collections tend to recede following the initial jump. As Figure 4 shows, collections from Wisconsin's cigarette tax jumped from \$551 million to \$644 million following the last increase in 2009. However, they have since declined to \$573 million in 2016.

Two factors play a role in falling collections. First, the higher tax induces some smokers to quit or reduce consumption. Over the past 20 years, the percent of Wisconsin adults who smoke has declined from 24.9% in 1996 to 17.3% in 2015. However, during 2007-12, the years immediately following the last two large tax hikes, smoking rates remained relatively unchanged: 19.9% in 2007 and 20.4% in 2012.

The second factor contributing to declining collections is smuggling. Research shows that cigarette smuggling increases following tax hikes. One study showed cigarette smuggling in Wisconsin almost tripled between 2006 and 2011.

Wisconsin taxes other tobacco products at varying rates. For moist snuff, the tax is equal to 100% of the manufacturer's list price; for all other tobacco products, the tax is 71% of list price. The maximum tax on a cigar is 50¢.

**Figure 5: Taxes and Fees on Sample Phone Bill**

PHONE BILL		
Customer	Account Number	Bill Date
Bucky Badger	1234567-890	March 5, 2017
Tax/Charge	Amount	
Wis. Police & Fire Protection Fee - 2 Lines	\$1.50	
Wis. Universal Service Charge	\$0.80	
Wis. State Sales Tax	\$4.00	
Wis. County Sales Tax	\$0.40	
Federal Universal Service Charge	\$0.90	
Regulatory Charge	\$0.45	
Administrative Charge	\$2.50	

## TAXING PHONES

With the advent of cellular technology, telephones are everywhere. But even telephone bills include a variety of hidden taxes from both the state and federal governments.

### Police and Fire Protection Fee

Every phone bill in the Badger State includes the Wisconsin Police and Fire Protection fee. The charge is 75¢ per cellphone and landline phone, and 38¢ per pre-paid mobile phone. In 2016, the fee generated \$53.3 million.

The police and fire protection fee is a spinoff of the 911 fee, which was created in 2003 to help fund upgrades to local 911 systems. The 911 fee was set to sunset in 2009, but with the state facing a large budget shortfall in 2009-11, the governor and lawmakers kept it, renaming it the police and fire protection fee.

Funds are transferred to the state general fund and used to pay municipal and county shared revenues, which can be used for any purpose, not just police and fire services. During 2012-16, annual collections averaged \$53.7 million.

### Universal Service Fees

Phone bills also contain both state and federal fees for their respective universal service funds that promote phone access.

*State Fees.* Wisconsin’s universal service fund (WUSF) was established in 1993 to promote, via discounted rates and targeted grants, access to essential telecommunication services. It is funded through a tax on intrastate revenues of telecommunication providers. The current rate is about 24%. Most providers

pass the cost on to customers with a charge on the phone bill.

WUSF funds are used to:

- Subsidize the BadgerNet Network used by K-12 schools, the U.W. System, libraries, and other entities throughout the state;
- Fund various library aids; and
- Fund BadgerLink (electronic access to journals, encyclopedias, and other reference materials) and Newsline for the Blind.

During 2012-16, collections averaged \$43.3 million per year.

*Federal Fees.* In 1996, three years after Wisconsin’s USF was created, the Federal Communications Commission created a federal universal service fund (FUSF) to provide affordable phone service to four groups: low-income individuals, schools and libraries, rural health care providers, and phone users in high-cost areas.

To pay for these programs, the government charges phone companies based on their interstate and international revenues. The rate companies must pay changes quarterly; for the first quarter of 2017, it is 16.7% of these revenues.

Although not required, phone companies typically pass these fees on to consumers via their phone bills.

In 2015, \$8.4 billion was disbursed through the four FUSF programs, with Wisconsin receiving \$264.7 million, or 3.2% of the total. The state received \$114 million more than it contributed in FUSF fees.

The majority of funds paid to Wisconsin entities was for high-cost customers (\$192.9 million). Smaller amounts were provided to schools and libraries (\$41.8 million), low-income individuals (\$19.8 million), and rural health care providers (\$10.2 million).

### Regulatory Charges

Although not a tax, a “regulatory charge,” which has different names depending on the provider, may also appear on a phone bill. Despite its name, the charge is not governmental; rather, it helps defray the firm’s costs of government mandates, regulations, and programs.

The telephone bill may also contain an administrative charge. Again, this is not governmental, but one from the phone service provider to help defray certain costs, such as those associated with cell site rents and maintenance, and talking on another cellular network.

## TAXING ELECTRICITY

Just as phone bills carry several little-known taxes, electric bills in Wisconsin also include an unfamiliar state tax. Usually labeled “Commitment to Community” or “Low-Income Assistance Fee,” the charge was created in 1999 and altered in 2006.

For residential customers, the monthly charge is the lesser of 3% of the total electric bill or \$3.15. For commercial and industrial customers, the charge varies by rate category from \$10.69 to \$260.20 per month, subject to the 3% limit. For customers with multiple metered services, the total cannot exceed \$750 per month.

Revenues go to the Utility Public Benefits Fund (UPBF) to pay for low-income energy assistance. In 2016, the state collected just over \$80 million from the charge. It also collected \$21.3 million directly from utilities, an amount included in electricity prices and passed on to consumers.

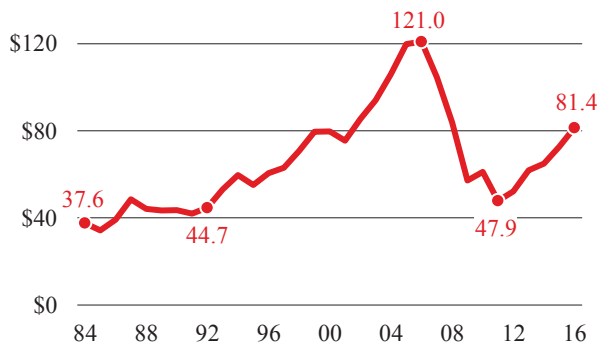
## TAXING HOME SALES

Wisconsin’s sales tax does not apply to real estate transactions. Rather, the state imposes a real estate transfer fee (RETF) of 0.3% (\$3 for each \$1,000 of the sale price). In other words, the state imposes a tax of \$450 on the sale of a \$150,000 home. If the property is a gift, the tax is based on the estimated market value. Transfers between spouses or between parents and children are exempt.

While similar to a sales tax, the RETF differs in terms of who pays. Sales taxes are paid by the purchaser, but the transfer fee is paid by the seller and included in closing costs.

The last major change to the RETF was in 1981, when the rate was increased from 0.10% to 0.30%. Revenue sharing also changed, from a 50-50 state-county split to the current 80-20 division.

**Figure 6: Real Estate Taxes Move With Economy**  
Inflation-Adjusted Collections, \$ Millions, 1984-2016



## Do Renters Pay Property Taxes?

Just as there are misconceptions about who really pays business taxes, there is also general misunderstanding about renters and property taxes. Most renters in Wisconsin would probably say they do not pay property taxes. They might be surprised to learn that they do pay them; the taxes are just “hidden.”

Apartment buildings are owned by companies or by individuals. Renting apartments is a business enterprise with a variety of costs, including property taxes imposed by the city, village, or town on the value of the building. When the building’s owner determines the rent, he or she considers all costs associated with the building, including property taxes.

State government recognizes this. One of the ways the state tries to reduce the property tax burden is through the property tax/rent credit on the state income tax. The credit is based on the amount of property taxes paid or rent paid.

Compared to other states, Wisconsin’s real estate tax is typical. Of 37 states taxing real estate transfers, about two-thirds have rates below 0.50%. In many states, rates are not uniform because local governments also impose the tax.

Of Wisconsin’s neighbors, Michigan has the highest state rate, 0.75%, followed by Minnesota (0.56%), Iowa (0.16%), and Illinois (0.10%). Both Michigan and Illinois also have local taxes; Chicago’s tax rate is 1.05%, more than 10 times higher than the state rate.

In 2016, Wisconsin’s real estate transfer fee generated \$81.4 million, \$65.1 million, for the state and \$16.3 million for counties. Inflation-adjusted, 2016 collections were the highest since 2008, just prior to recession (see Figure 6).

As real estate sales and prices boomed before 2007, real estate transfer collections climbed rapidly. After inflation, they increased 171% during 1992-2006, or an average of 7.4% per year, from \$44.7 million to \$121.0 million.

However both sales and prices crashed over the next several years and collections dropped to \$47.9 million in 2011, their lowest level in almost 20 years. They have since recovered about half the decline. □

### DATA SOURCES:

Federal Communication Commission; Internal Revenue Service; Wisconsin Departments of Administration and Revenue; Wisconsin Legislative Fiscal Bureau; Wisconsin Public Service Commission.



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**WISTAX NOTES**

■ **Job Growth, Firm Creation Lags.** During 2011-14, Wisconsin added 98,917 jobs. The 4.2% increase ranked the Badger State 36th among the states. Among neighboring states, Iowa ranked lower (37th).

While many factors are at work, a strong relationship exists between new firm creation and job growth (see chart). New Census figures show Wisconsin added 572 net new firms (firm “births” minus “deaths”) during these years. The 0.5% increase was 46th highest nationally. West Virginia (-2.3%), Indiana (0.2%), Mississippi (0.3%), and New Mexico (0.4%) created firms at a slower pace.

Given the rate of firm creation, modest job growth in Wisconsin is not unexpected (again, see chart). North Dakota and Utah had the highest rates of firm creation and job growth. At the other end of the spectrum, West Virginia was a net loser of firms during 2011-14 and ranked 49th in job growth.

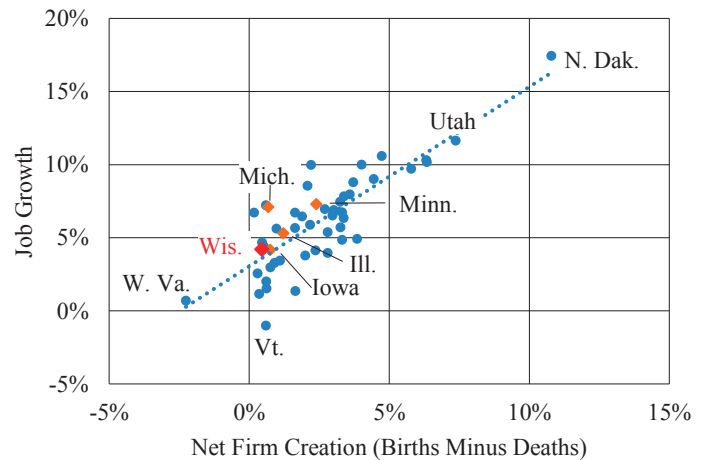
■ **More High Schoolers Taking AP Tests.** The number of Wisconsin high school students taking Advanced Placement (AP) exams increased from 31,415 in 2011 to 44,205 in 2016. Passing grades on AP tests allow students to claim course credit at many colleges and universities.

In 2016, the number of high school girls taking at least one AP exam was about 32% higher than the number of boys taking one (25,153 vs. 19,052).

Choice of AP coursework also varied by gender. Psychology was the top choice for both boys and girls. However, while 26% of girls took the exam, only 18% of boys did. Females were also more likely to take each of the two english/composition exams (19% to 13%). Boys were more likely to take physics (10% vs. 4%), calculus (16% vs. 12%), economics (6% vs. 3%), and computer science (3% vs. less than 1%).

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. In accordance with IRS regulations, WISTAX financial statements are available on request.

**Wis. Slow Job Growth Related to Lack of Firm Creation**  
Percent Change in Jobs and Firms, 2011-14



■ **Government Employment Rises.** Wisconsin state and local governments employed 286,345 full-time equivalent workers in 2015, an increase of 2,510 (0.9%) since 2010. State government employment increased by 1,955 (2.7%) during those years, while local employment rose 555 (0.3%), according to new figures from the U.S. Census Bureau. □

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