



State Tax Rankings: Digging a Little Deeper

Income, Property Tax Burdens Vary by Taxpayer, Place

State and local tax burdens are frequently compared and ranked, but the proverbial devil is often in the details. For example, at \$20,000 of income, a family of four in Wisconsin had the 33rd highest income tax load in the U.S., but at \$75,000 that burden was seventh highest. Similarly, an owner of a \$150,000 house in Milwaukee paid \$3,846 in 2012 property taxes, fourth highest among large cities across the nation, while a Rice Lake owner paid \$3,229, seventh highest relative to other small-town homeowners.

Ranking states on their overall tax burdens is a favorite pastime of politicians and pundits. These comparisons are informative, but they often mask differences among states in their approaches to taxation.

For example, these rankings generally do not distinguish between families with incomes of \$25,000 versus \$50,000 or \$100,000. Yet, in some states, the taxes these households pay can claim very different shares of income. In others, they may be more similar.

Two national reports—one from Minnesota and another from Washington D.C.—help fill this gap, allowing state-by-state comparisons of tax burdens at different income levels. The information found in

these reports combined with broader measures of tax burden allow for a more complete picture of the relative tax burden faced by Wisconsin families.

THE BIG PICTURE

Annual figures from the U.S. Census Bureau are most commonly used to compare state tax burdens. Unfortunately, they are not particularly timely: The latest data are for fiscal 2010-11 (2011).

That year, Wisconsin's state and local governments collected \$25.6 billion in taxes. To compare with other states, that total is adjusted for population or income. Wisconsin's total taxes equalled \$4,499 per capita (17th highest) and 11.6% of total state personal income (11th). When

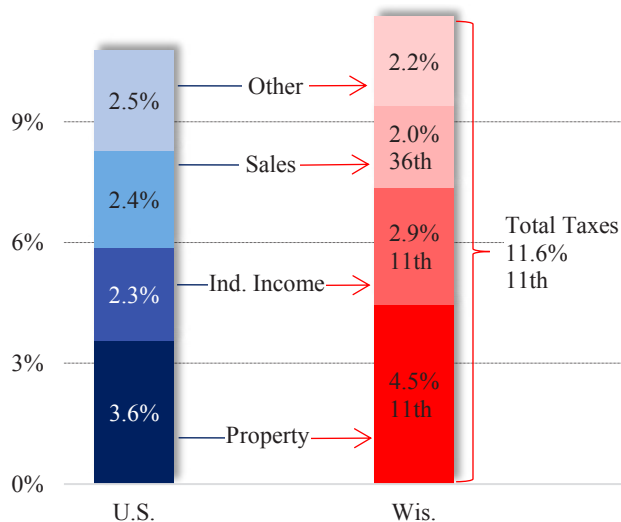
government fees are added, the totals rise and ranks fall slightly (\$5,783 and 18th; 14.9% and 15th).

Personal income is a broad economic measure that includes wages, benefits, government payments, interest, and other income sources. The tax figure is equally broad and includes collections based on individual and corporate incomes, sales, and property, among others. Because Wisconsin's per capita income is about 4% below average, the state's rank for taxes relative to income is typically higher than its per capita rank.

Also in this issue:

- Pension Funding • Post-Grad Exams
- New Municipal Spending Report

Figure 1: Overall Tax Burden Above Average
Taxes as % of Personal Income, U.S. and Wis., 2011



Based on Census figures, Wisconsin would likely be considered a “high-tax” state. However, not all taxes are above national norms. The state relies more on property and income taxes, and less on sales taxes, than most states.

Property, Income Taxes High

Property Taxes. Wisconsin’s largest tax, the property tax, totaled \$9.8 billion in 2011. Used by municipalities, counties, K-12 schools, technical colleges, special districts, and the state, it is paid by owners of residential, commercial, manufacturing, agricultural, and other property. In 2011, property taxes here claimed 4.5% of personal income and were 11th highest among the states (see Figure 1). They averaged 3.6% of personal income nationally.

Income Taxes. The state’s second-largest tax, the individual income tax, was also 11th highest nationally. Collections in 2011 totaled \$6.4 billion, or 2.9% of personal income. Nationally, that figure claimed 2.3% of personal income.

Seven states (Alaska, Florida, Nevada, South Dakota, Texas, Washington, and Wyoming) have no individual income tax, while two (New Hampshire and Tennessee) tax only dividend and interest income. Individual income taxes claimed an average 2.8% of personal income in the 41 states with broad-based income taxes.

Sales Tax More Modest

Among the three major taxes, sales tax collections in Wisconsin are more modest than property or income

taxes. In 2011, they totaled \$4.4 billion for state and local governments combined, and claimed 2.0% of personal income, 36th highest among the states. Nationally, sales taxes claimed 2.4% of personal income.

A CLOSER LOOK

Digging a little deeper reveals Wisconsin residential property taxes are higher than federal data might indicate. And, for low-income residents, income taxes here are lower than in most states.

The Property Tax

For most Wisconsinites, the property tax is the largest state or local tax they pay. For property owners, the tax is explicit; it is a bill they receive each December. For renters, the property tax is less transparent. The tax is paid by a landlord who views it as a cost of doing business and passes it on to tenants in higher rent. The state’s property tax/rent credit, claimed on the state income tax form, recognizes property taxes borne by renters.

Comparison is Difficult. Comparing property taxes across states is difficult.

First, the property tax is primarily a local tax but is levied by multiple units of government. As such,

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Wisconsin has many different property tax rates. The rate in Madison differs from rates in Milwaukee or Rhinelander, for example.

Second, the property tax an individual pays depends on both the rate and value of the property. Yet property values vary widely. A three-bedroom home in rural Rhinelander will likely be valued less than the same home in suburban Brookfield. The Brookfield home, in turn, will probably be valued less than a similar home north of Chicago.

Third, families with the same income make different housing choices; some buy more expensive homes, others more modest ones. Thus, two families with the same income living in the same community could have very different property tax bills.

Residential Property Taxes High. A study from the Lincoln Institute of Land Policy (Massachusetts) and the Minnesota Center for Fiscal Excellence provides one of the best comparisons of residential property taxes across states. It compares property taxes at different home values in both the largest city in the state and a representative small town (Milwaukee and Rice Lake, respectively, for Wisconsin). Because the property tax structure in Chicago and New York City differ substantially from the rest of their respective states, the study also includes Aurora and Buffalo in the large-city analysis.

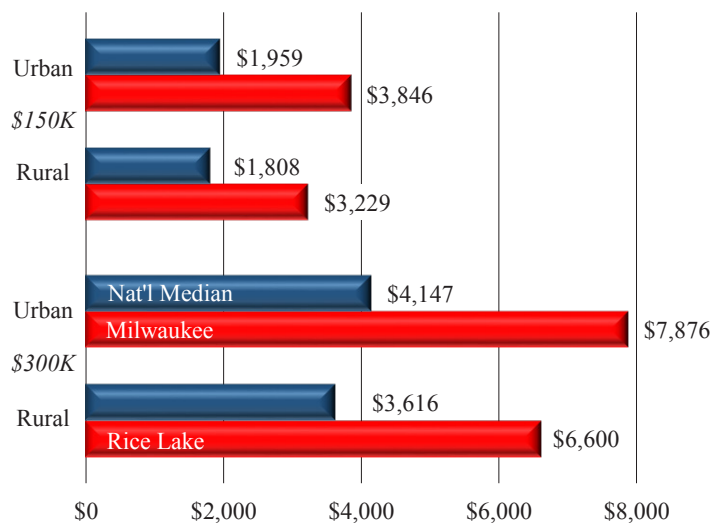
In Milwaukee, 2012 property taxes were \$3,846 on a \$150,000 home and \$7,876 on a \$300,000 home. Both amounts were nearly double the national median (half lower, half higher). For a \$150,000 home, the median was \$1,959; for a \$300,000 home, \$4,147 (see Figure 2).

Compared to other large cities, Milwaukee property taxes on both \$150,000 and \$300,000 homes were fourth highest nationally in 2012 (see Table 1 on page five). Property taxes in Detroit, Bridgeport (Conn.), and Aurora (Ill.) were higher.

High property taxes in midwestern states are evident in the table. Four of the top five cities were in the midwest (Detroit, Aurora, Milwaukee, and Des Moines). Minneapolis ranked 21st.

Wisconsin's relatively high residential property taxes are confirmed by the "small-town" comparisons. On a \$70,000 home, Rice Lake property taxes were \$1,431, or 82% above the U.S. median. They were more than 75% above the median on both \$150,000 (\$3,229, 79%) and \$300,000 (\$6,600, 83%) homes

Figure 2: Residential Property Taxes High
2012 Prop. Taxes on Urban and Rural Homes, Wis. (Red) and U.S. (Blue)



(see Figure 2). Compared to small towns in other states, Rice Lake's property taxes ranked ninth on the \$70,000 home and seventh on both higher-valued homes.

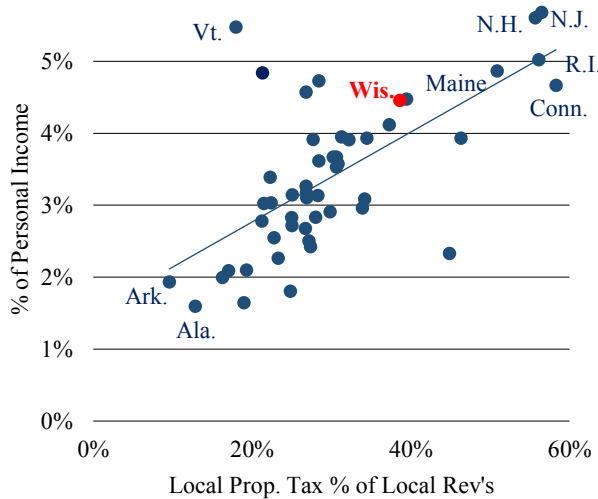
These figures do not reflect two 2013-15 property tax cuts in Wisconsin that totaled about \$466 million. However, the cuts would have had little impact on our national rank. In 2012, Milwaukee's property taxes were about 9% higher than fifth-ranked Des Moines. The tax cut was less than 5%, so even with the cut, Milwaukee's taxes would have remained fourth highest. Rice Lake would have dropped slightly in rank, from ninth to 11th on a \$70,000 home and from seventh to 10th on a \$150,000 home.

Homestead Credit. Wisconsin's Homestead Credit, which eases the property tax burden for low-income households, is also excluded from the above calculations. For households with incomes below \$8,060, the credit equals 80% of the first \$1,460 in property taxes or qualifying rent for a maximum credit of \$1,168. The credit declines as income rises and is eliminated above \$24,680.

Why High? At least three factors drive Wisconsin's relatively high residential property taxes: greater use of the tax to fund local governments, past legislative actions, and the "uniformity clause" in the state constitution.

In 2011, nearly 39% of local government revenue in Wisconsin was from property taxes, the ninth highest percentage among the states. Wisconsin's reliance on the property tax reflects its early settlement by New

Figure 3: Local Usage Drives up Property Taxes
 Prop. Taxes % of Pers. Inc. and Local Revenues, 2012



Englanders. Of the six New England states, five (Connecticut, Maine, Massachusetts, New Hampshire, and Rhode Island) rank among the top six in local reliance on the property tax. Vermont is the exception, but it has a state property tax more than twice as large as the local one whose revenues are transferred back to local governments. Figure 3 highlights the relationship between local property tax usage and burden.

Past legislatures have also narrowed Wisconsin’s property tax base by exempting certain types of property. At one time, nearly all property, including household items, savings, livestock, and manufacturing inventories, was taxed. Many personal items were exempted before or during early statehood. Between the early 1960s and 1982, the state exempted the value of all livestock, inventories, and manufacturers’ inventories. Manufacturing machinery and equipment has been exempt since 1974.

The state also largely exempts from property taxes forests enrolled in one of the state’s forest land programs. In addition, farmland has been valued according to use rather than market value since 2000, greatly reducing property taxes on agriculture. These legislative actions shift some of the property tax burden to owners of residential property.

Finally, Wisconsin’s “uniformity clause” (Article VIII, Section 1 of the state Constitution) requires uniform taxation. Thus, residential property is taxed at the same rate as commercial and manufacturing property.

Some other states tax residential property differently than commercial or manufacturing property. For

example, Louisiana assesses commercial buildings at 15% of fair-market value; however, it assesses residential property at 10% of value and does not tax the first \$7,500 of assessed value (\$75,000 of fair-market value), shifting the property tax burden from residential to other types of property, and from low-valued to high-valued residential property. Because Wisconsin does not give preferential tax treatment to residential property, taxes on those properties here tend to be higher than in states that provide such treatment.

The Income Tax

Wisconsin’s second largest tax is the state income tax. The Badger state is one of 33 with a graduated income tax; i.e., the tax rate increases with income. Eight states—Colorado, Illinois, Indiana, Massachusetts, Michigan, New Hampshire, Pennsylvania, and Utah—have flat-rate income taxes.

In 2010, the last year for which there are comparable data, Wisconsin had five income tax brackets, ranging from 4.60% for taxable incomes below \$13,420 (married couple filing jointly) to 7.75% for taxable incomes above \$295,550 (see Table 1). Recent legislation reduced the number of brackets and all income tax rates. The rate is now 4.00% (for incomes up to \$14,540) in the lowest bracket and 7.65% (over \$320,250) in the highest. Lawmakers also made the

Table 1: Wisconsin’s Income Tax has Changed
 State Income Tax Brackets, 2010 and 2014

Filing Status	Taxable income:		Rate
	From	To	
2010			
Single or head of household	\$0	\$10,070	4.60%
	10,070	20,130	6.15
	20,130	151,000	6.50
	151,000	221,660	6.75
	221,660 +		7.75
Married, filing jointly	0	13,420	4.60%
	13,420	26,850	6.15
	26,850	201,340	6.50
	201,340	295,550	6.75
	295,550 +		7.75
2014			
Single or head of household	\$0	\$10,910	4.00%
	10,910	21,820	5.84
	21,820	240,190	6.27
	240,190 +		7.65
Married, filing jointly	0	14,540	4.00%
	14,540	29,090	5.84
	29,090	320,250	6.27
	320,250 +		7.65

Table 2: Wisconsin Residential Property Taxes High
2012 Property Taxes in 52 Large Cities in 50 States

City	\$150,000 Rk	\$300,000 Rk	City	\$150,000 Rk	\$300,000 Rk
Detroit, MI	\$5,001	1	Sioux Falls, SD	\$1,950	27
Bridgeport, CT	4,317	2	Atlanta, GA	1,943	28
Aurora, IL	4,176	3	Anchorage, AK	1,937	29
Milwaukee, WI	3,846	4	Wilmington, DE	1,921	30
Des Moines, IA	3,535	5	Albuquerque, NM	1,866	31
Philadelphia, PA	3,528	6	Charlotte, NC	1,847	32
Newark, NJ	3,523	7	Los Angeles, CA	1,810	33
Manchester, NH	3,377	8	Oklahoma City, OK	1,783	34
Portland, OR	3,268	9	Las Vegas, NV	1,711	35
Buffalo, NY	3,200	10	Little Rock, AR	1,673	36
Columbus, OH	3,063	11	Billings, MT	1,511	37
Omaha, NE	3,028	12	Indianapolis, IN	1,496	38
Baltimore, MD	2,992	13	Boise, ID	1,465	39
Burlington, VT	2,893	14	Virginia Beach, VA	1,420	40
Houston, TX	2,812	15	Seattle, WA	1,403	41
Memphis, TN	2,796	16	Salt Lake City, UT	1,290	42
Portland, ME	2,635	17	Phoenix, AZ	1,283	43
Providence, RI	2,583	18	Charleston, WV	1,143	44
Fargo, ND	2,350	19	New Orleans, LA	1,088	45
Chicago, IL	2,298	20	Cheyenne, WY	988	46
Minneapolis, MN	2,227	21	Birmingham, AL	985	47
Jackson, MS	2,115	22	Columbia, SC	930	48
Kansas City, MO	2,071	23	New York City, NY	854	49
Wichita, KS	2,053	24	Denver, CO	851	50
Jacksonville, FL	1,969	25	Honolulu, HI	240	51
Louisville, KY	1,967	26	Boston, MA	174	52

earned income tax credit (EITC) somewhat less generous for filers with two or more children.

Among states with the tax, Wisconsin was one of 10 with the most progressive income taxes in 2010; recent tax law changes are unlikely to change that in 2014. A progressive income tax is one in which those with higher incomes pay a greater percentage in taxes than those with low incomes.

In 2010, a Wisconsin married couple with two children and \$10,000 in income paid no income tax, and received more than \$500 (5% of income) from the state due largely to the refundable EITC. A similar family earning \$50,000 paid about 3% of income in income taxes; that percentage rose to almost 6% for families with incomes above \$500,000 (see Figure 4 on page 6).

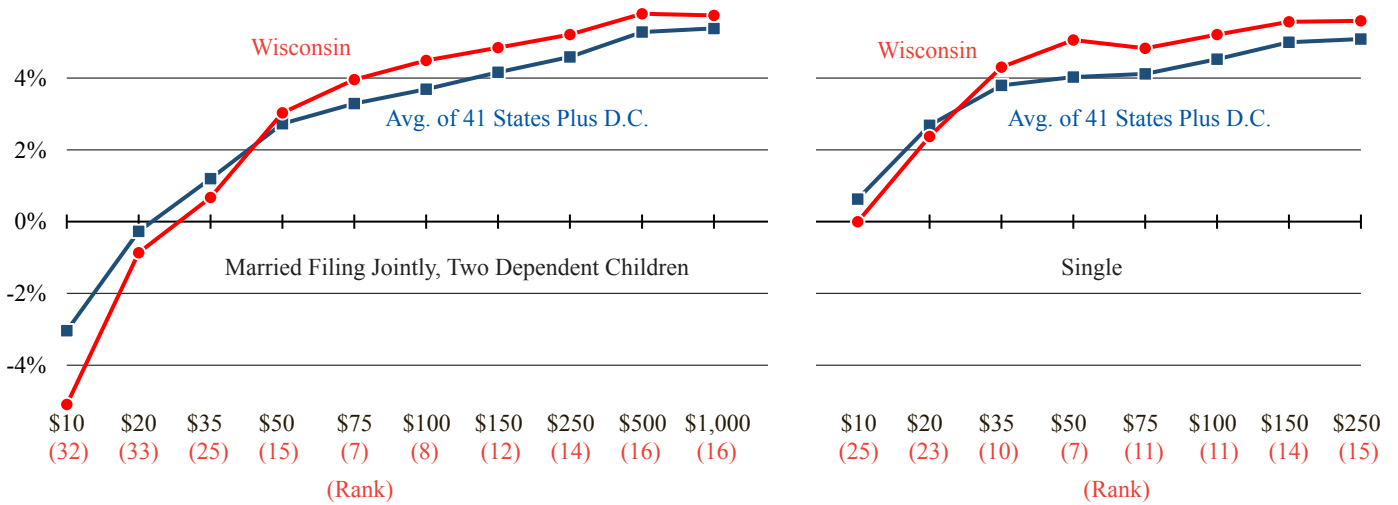
Under Wisconsin's progressive income tax, low-income filers generally fare better here than elsewhere, while upper-income filers generally fare worse. Figure 4 is indicative. For married couples

with two children, income taxes here are below the U.S. average at incomes under \$35,000 but above average at higher incomes.

At various income levels, national ranks also show how the Wisconsin income tax stacks up against other states. For a married couple with two kids, state income taxes ranked 32nd at \$10,000 of income, 33rd at \$20,000, and 25th at \$35,000 (see red numbers in Figure 4). At \$50,000, Wisconsin jumped to 15th, and moved into the top 10 at \$75,000 and \$100,000 (7th and 8th respectively). At higher incomes, the Badger State ranked between 12th and 16th.

While single filers cannot take advantage of Wisconsin's EITC, low rates at the bottom and fairly generous exemptions and the standard deduction keep the tax low for singles with incomes under \$20,000. State income taxes ranked 25th and 23rd at \$10,000 and \$20,000, respectively. However, a single filer with \$35,000 in income paid the 10th highest income tax in the nation; a filer at \$50,000, 7th highest. At

Figure 4: Wisconsin's Income Tax More Progressive Than Average
 Estimated State Income Taxes as % of Income (\$ Thousands), Wisconsin and U.S., 2010



incomes above \$50,000, Wisconsin ranked between 11th and 15th.

The Sales Tax

Of the three principal taxes in Wisconsin, the sales tax generates the least revenue. In 2013, state-local sales tax collections were just under \$5 billion, about 35% less than the income tax and less than half the property tax. Unlike the progressive income tax, the sales tax is usually considered regressive, claiming a larger share of income for low-income families than for high-income ones.

Rates. At 5%, Wisconsin's state sales tax is tied with North Dakota's as the 33rd highest among the

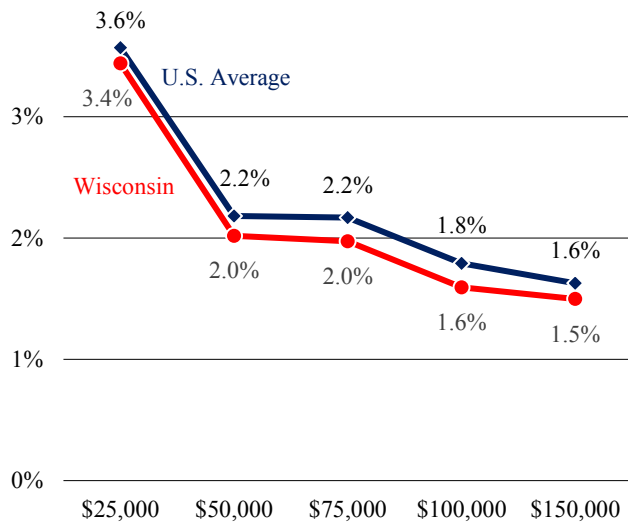
states. When various local sales taxes (primarily the optional 0.5% county tax here) are included, Wisconsin's sales tax averages about 5.4% and drops to 44th. Many states allow greater local use of the tax. Delaware, Montana, New Hampshire, and Oregon have no state or local sales taxes, while Alaska has only a local one.

Base. The sales tax burden depends on both the rate and the base; i.e., what is taxed. In Wisconsin, the sales tax is primarily a tax on the purchase of tangible goods; only selected services are taxed. Most food is also not subject to the Wisconsin tax. Of the 45 sales tax states, 29 do not tax food. Another eight tax it at a reduced rate, and five tax it fully but allow rebates or income tax credits for low-income households.

Comparative Burdens. To compare sales taxes, a Washington D.C. study combines information from the national Consumer Expenditure Survey with state and local sales tax rates for the largest city in each state. Figure 5 shows that the 5.6% sales tax in Milwaukee claimed an estimated 3.4% of income in a household earning \$25,000. That was slightly below the 3.6% average in the 50 cities studied. At \$50,000 and \$75,000, the tax claimed 2.0% of income, while at higher incomes it claimed less. At each income level studied, Wisconsin's sales tax ranked between 30th and 32nd.

Milwaukee's total sales tax burden was lower than the tax in all cities studied except Portland (5.0%), Virginia Beach (5.0%), and Honolulu (4.5%). The highest rates were in Minneapolis (9.9%), Seattle

Figure 5: Sales Tax Somewhat Regressive
 Tax as % of Income, Wis.* (Red) and U.S. (Blue) Average, 2012



*Calculations are for largest city in each state. Milwaukee's 5.6% sales tax is used for Wisconsin.

(9.5%), Phoenix (9.3%), Memphis (9.25%), and Chicago (9.25%).

Because higher-income households spend a smaller share of income than low-income households, the sales tax tends to be regressive. That is, the tax consumes a greater share of income in poor households than in rich ones. Exempting food or providing rebates/credits to low-income households can make the tax less regressive.

Vehicle Taxes

Although much smaller and less obvious than other sources of revenue, Wisconsin families also pay significant gas taxes and vehicle registration fees. Generally, these taxes and fees claim a larger share of income for low-income families than for high-income ones.

Gas Tax. Wisconsin's gas tax is 32.9¢ per gallon, seventh highest nationally and highest in the region. Drivers here pay 27.0% more in gas taxes than the average driver elsewhere. California (46.5¢) has the highest tax, while North Carolina, Pennsylvania, Washington, and West Virginia all have gas taxes above 35¢.

Registration Fees. Drivers also pay a fee to register their vehicles. In Wisconsin, car owners pay \$75 annually. Like Wisconsin, some states charge a fixed annual (or sometimes biennial) fee, while others base fees on some combination of vehicle age, weight, and value. The most common vehicle feature used to calculate registration fees is weight (18 states).

In addition to state registration fees, some states also have local ones. In some states, the vehicle is

also subject to the personal property tax, which can significantly increase vehicle registration costs. For example, in Mississippi, registering a new \$35,000 vehicle could cost more than \$1,000.

Burdens. Varied methods of calculating registration fees makes comparing states difficult as the result depends on assumptions about vehicle characteristics.

In Milwaukee, the 5.6% sales tax claimed 3.4% of income for families earning \$25,000, but less than 2.0% of income for families earning more than \$75,000.

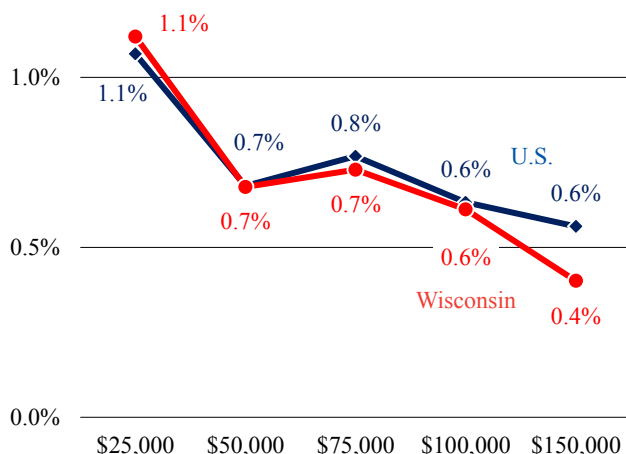
To estimate gas and fee costs for families at different income levels, the D.C. study assumed low-income families had one car, while those with higher incomes had two. Vehicle values rose with family income, as did miles travelled.

For a one-vehicle Wisconsin family with income of \$25,000, estimated gas taxes and vehicle registration fees were \$280 (1.1% of income, see Figure 6), or 19th highest nationally. The state also ranked 19th at \$50,000. Although vehicle taxes and fees declined as a percent of income as incomes rose, the state's rank dropped to 22nd, 20th, and 29th, respectively, at \$75,000, \$100,000, and \$150,000. Wisconsin's declining rank reflects the effects of vehicle registration fees based on vehicle characteristics in other states versus our flat rate.

FINAL THOUGHTS

The figures presented here highlight features of Wisconsin's tax system that differ from elsewhere and have varying impacts on families at different income levels. The EITC and Homestead Credit can significantly lower income and property tax burdens for low-income families. However, the income tax rate structure and legislated property tax exemptions help raise income and property taxes for middle-income families here compared to elsewhere. The combination of graduated tax rates, the EITC, and a sliding standard deduction help make our income tax one of the most progressive in the country. □

Figure 6: Vehicle Taxes/Fees Here About Average Gas Taxes and Veh. Reg. % of Income, Wis. and U.S., 2012



DATA SOURCES:

Minnesota Center for Fiscal Analysis; Lincoln Institute of Land Policy; Mississippi Department of Revenue; National Conference of State Legislatures; Tax Foundation; Washington D.C. Office of Revenue Analysis.



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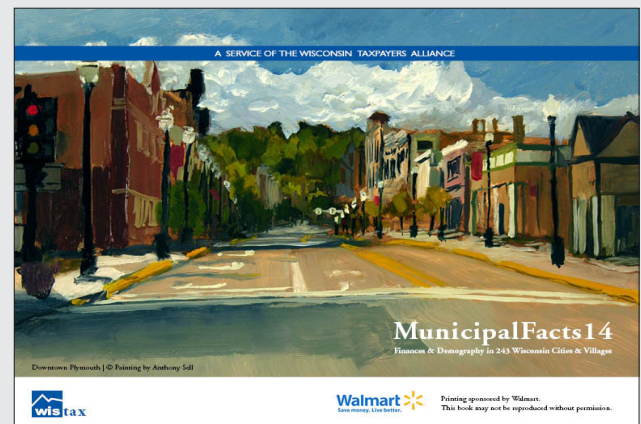
WISTAX NOTES

■ **Pension Funding.** Wisconsin is one of 14 states with a “sound” pension system. State pension systems are considered “sound” if they have a funded ratio (the measure of a state’s ability to meet its future pension payout obligations) of 80% or higher. Of surrounding states, Iowa is the only other with a sound system. Minnesota’s funding ratio falls in the 70-79% range, while Michigan’s system is less than 70% funded.

Nine states, including Illinois, have pension systems that are less than 60% funded. Illinois has the largest unfunded pension liability in the country, totaling \$100 billion in 2012. Lawmakers have since overhauled the Illinois system and hope the system is fully funded by 2044. The plan, which cut retirees’ annual cost-of-living increases and raised the retirement age for workers 45 and younger, is being challenged by unions in court. (Source: *National Conference of State Legislatures*)

■ **Post-Grad Exams.** University of Wisconsin students performed above the national average on Nursing Licensure, GRE, and MCAT examinations, according to the UW system’s 2012-13 accountability report. UW students scored an average of 26.7 on the Medical College Admissions Test (MCAT), compared to the 25.1 national average. While 90% of UW system students passed the Nursing Licensure examination, 88% of all U.S. students did so.

While the average American student scored 472 on the verbal section of the Graduate Record Exam (GRE) and a 599 on the quantitative section, the average UW student scored 483 and 609, respectively. □



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