

TAX BURDEN FALLS AGAIN

Incomes outpace state and local taxes

Our annual review of state and local taxes shows that the state's tax burden – defined as the total of those taxes as a share of state residents' income – dropped once again in 2019. This extends a long-running trend that is attributed both to limited growth in taxes and relatively strong growth in income.

State and local taxes as a share of income fell in 2019 for the eighth consecutive year in Wisconsin, as growth in taxes was countered by stronger growth in the income of state residents. The tax burden in the state dropped to 10.3%, down from 10.4% in 2018, reaching its lowest level in Wisconsin Policy Forum records that date back to 1970. (See Figure 1.)

State and local tax revenues increased by 4.5% in fiscal year 2019 (i.e. the year ended on June 30, 2019) - the most since 2011 and nearly twice as much as they rose in 2018. Nevertheless, personal income in Wisconsin grew more quickly. Total personal income, which includes wages and salaries, investment income, and government benefits, rose 5.1% to \$299.93 billion in calendar year 2018, the most recent year available, leaving state residents as a whole better able to pay the higher taxes.

In 2019, the growth in state and local taxes was mostly due to the **substantial increase** that we noted recently in state collections, which rose by 6% overall. Notably, corporate income tax revenues rose at the fastest rate in decades and individual income taxes – the largest state tax – increased by 6.1%.

All local tax collections for 2019 grew more slowly at 1.7%, which was below the rate of inflation and less than the previous year's 1.9% increase in local tax revenues. After five years of greater growth in state collections, those local revenues in 2019 made up just over one-third of state and local taxes, their smallest share since 2000.

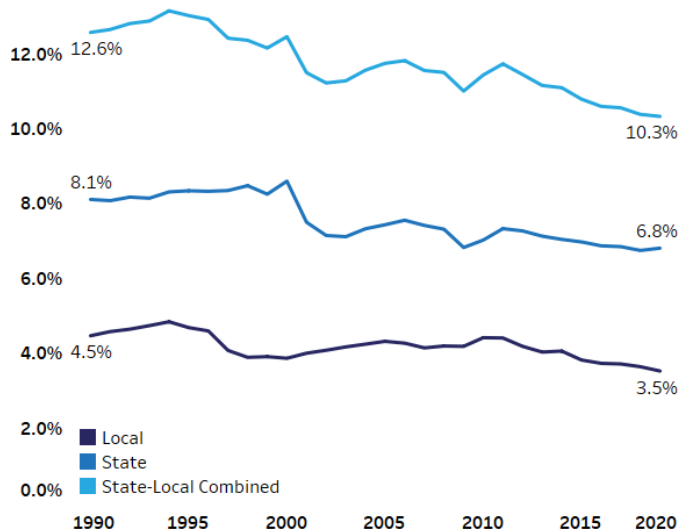
Property taxes make up the bulk of local tax revenues and 2019 collections were held down by state-imposed limits on municipal, county, and technical college levies

as well as state caps on school district revenues. Net property taxes were also reduced because of a 38.2% increase in the state lottery credit, which lowers bills on a primary residence.

Using partial figures, we noted recently that December bills will likely **yield the largest increase** in years for 2020 property tax collections. However, this report deals with the previous year's property tax levies for which complete figures are available.

Several relatively small local taxes did see substantial increases in collections. County sales taxes, for example, rose by 11.1% in 2019 and local vehicle

Fig. 1: State-Local Tax Burden Falls
State, local, and state-local combined taxes as % of Wisconsin income, 1990-2019



Sources: WPF research, state of Wisconsin



registration fees, sometimes known as wheel taxes, rose by 37.1%. See the interactive chart accompanying this report for more details on each state and local tax.

In addition, the federal taxes paid by state residents in 2019 rose by an estimated 3.2%, compared to a 2.1% decrease in 2018.

As we will discuss, the increases and decreases in these local and state taxes reflect policy changes in some cases and in others correspond to growth or other changes in the economy. The figures and broader trends matter not just for those who pay the taxes but also for those who depend on the public services paid for with these revenues.

STATE AND LOCAL TAXES

The share of Wisconsin's income going to state and local taxes has generally fallen for more than two decades, particularly in recent years. The state-local tax burden is now 1.4 percentage points lower than in 2011, when it was 11.7%, and 2.9 percentage points lower than in 1994, when it was 13.2%.

Another way of saying this is that 2019 taxes as a share of income in Wisconsin were nearly 22% lower than they were in 1994. Separate drops in state and local tax burdens have contributed to the overall decrease, but local taxes as a share of income have fallen the most.

When the numbers are presented as percentages, the decades-long trend of decreasing tax burdens may seem unremarkable. Yet the underlying numbers are vast because they are spread across all taxpayers in the state.

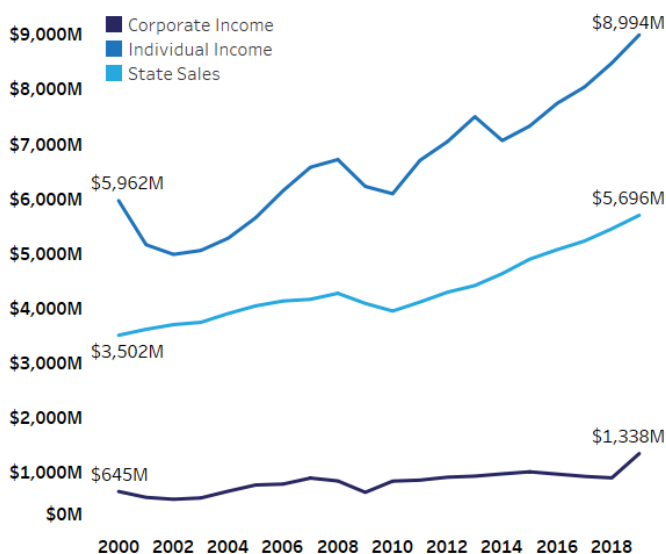
If state and local taxes in 2019 accounted for the same share of personal income in Wisconsin as in 1994, then taxes would have been nearly \$8.5 billion higher, or an amount almost equal to the actual 2019 individual income tax collections in the state. This hypothetical example is not realistic in that it assumes – implausibly – that a much higher level of taxes and spending on public services such as education would not have affected Wisconsin's total income. Still, it illustrates how significant the changes have been over time.

STATE TAXES AND FEES

State taxes as a share of personal income are much lower than in the 1990s, but the state tax burden ticked up to 6.8% in 2019 from 6.7% the year before. Boosted in part by a strong economy, state tax revenues grew by 6% in 2019, or \$1.16 billion, to \$20.4 billion.

The major state taxes include individual and corporate income taxes, sales taxes, unemployment insurance payroll taxes, fuel taxes, hospital assessment taxes, vehicle registration fees, and excise taxes on cigarettes, other tobacco products, and alcohol. Notable decreases include a 9.7% drop in unemployment tax collections and a 4.6% decline in cigarette tax revenues.

Fig. 2: Three Biggest State Taxes On Upswing
Individual income, sales, and corporate income tax revenues (nominal \$), 2000-2019



Individual income tax

Accounting for nearly \$9 billion in fiscal year 2019, the individual income tax is the top source of state revenues. It rose by 6.1%, or \$514.9 million, from \$8.48 billion in 2018, which was the largest percentage increase since 2013. (See Figure 2.) The individual income tax, which fluctuates with the overall economy, is larger than the combined total of the next two biggest state taxes on sales and corporate income.

The state Department of Revenue (DOR) [noted in September](#) that income taxes withheld from workers' paychecks rose substantially in 2019, signaling that both wages and overall employment were increasing. As discussed below and in a [recent WPF brief](#), both individual and corporate income taxes at the state level have also been affected by the 2017 federal Tax Cuts and Jobs Act, which led to some types of businesses choosing to file and pay income taxes at the corporate level rather than pass profits through to shareholders for them to pay individual income taxes.



State income taxes in tax year 2019 are also being reduced following a 2018 U.S. Supreme Court decision in *South Dakota v. Wayfair* that gave states wider latitude to tax sales handled by internet and other out of state retailers. Under a provision in state law first approved in 2013, these additional sales tax revenues are being used to lower income taxes in the state.

The 2019-21 budget recently approved by Gov. Tony Evers and lawmakers contains an additional income tax cut estimated at \$166.9 million a year that takes effect in tax year 2019. Other income tax decreases approved in recent years include broad rate reductions, deductions for private school tuition, and a higher standard deduction.

Sales tax

The next largest source of state funding is the sales tax, which rose 4.5%, or \$247.4 million, in 2019 to \$5.7 billion. That was the largest percentage increase since 2015 and reflected in part the strong economy.

As noted above, since last year sales tax collections also have been boosted by the Supreme Court's *Wayfair* decision. For a more detailed look at the ruling's impact, see [Focus #14-2018](#).

Corporate income tax

Corporate income tax revenues rose by nearly 50% in 2019 – their largest percentage increase since 1964 – to \$1.34 billion. Corporate taxes react quickly to economic conditions and part of their rise was due to the growing economy.

In addition, the federal tax legislation [boosted corporate collections](#) at the state level by incentivizing business entities to shift taxable income from the 2017 tax year into 2018. As noted earlier, the federal law and state legislation have also led certain business entities to shift to filing and paying their taxes at the corporate level. DOR has also said collections have risen because of funding provided to hire additional auditors.

Unemployment tax

The unemployment insurance (UI) tax is one of the largest at the state level even though ordinary workers may not notice this tax paid by their employers.

Unemployment taxes go into a special fund used to pay benefits to eligible jobless workers.

These taxes rose sharply along with unemployment during the Great Recession but have fallen since 2013 as the state unemployment trust fund first repaid a federal loan and then came [closer to the reserve levels](#) needed to weather a new economic downturn. Unemployment taxes declined by 9.7% in 2019 to \$568.5 million from \$629.8 million in 2018.

Hospital assessment

Enacted in 2009, the hospital tax is assessed on a percentage of an eligible hospital's gross patient revenue. Revenues from the tax are deposited in the state's Medicaid fund.

The tax was intended to increase state Medicaid spending, which in turn draws down additional federal matching dollars. After a 10% decrease in 2018, hospital assessment collections in 2019 increased by 5.8% to \$422.8 million.

Transportation taxes

Transportation taxes and fees include the gas tax (also known as the motor vehicle fuel tax), vehicle registration fees, driver's license fees, and limo and car rental fees. These revenues go into a segregated fund used only for transportation-related spending.

Most revenue in the transportation fund comes from the gas tax and vehicle registration fees. Both sources have lagged in recent years, raising questions about whether the state needs to either cut road and highway projects or increase tax or fee amounts.

The state gas tax is 30.9 cents per gallon and has remained at this rate since 2006. Fuel taxes were essentially flat in 2019 at \$1.07 billion. Vehicle registration fee revenue decreased by 0.4% in 2019 to \$704.3 million, down from \$707 million in 2018. The state budget passed in June increased the state's vehicle registration fee from \$75 to \$85 effective October 1, which will increase fiscal 2020 collections by an estimated \$28 million.

Excise taxes

Though not a major part of the state budget, Wisconsin does rely more heavily than most other states on taxes

To see yearly revenues from dozens of state and local taxes in Wisconsin, [click here for our interactive chart.](#)



on cigarettes and tobacco products and also collects excise taxes on beer, liquor, and wine. In October, the state also imposed a [vaping products tax](#) at a rate of five cents per milliliter of liquid or other substance that is expected to bring in \$2.3 million in 2020.

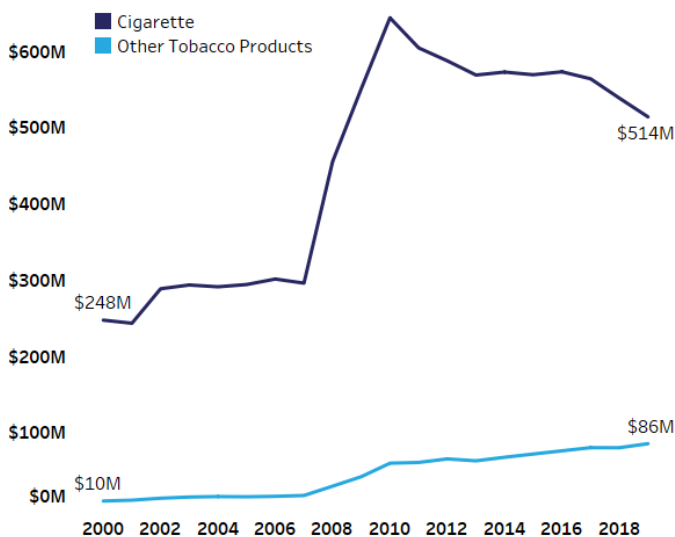
After being raised substantially a decade ago, cigarette taxes went on to fall, plateau, and in recent years fall again, which could reflect reduced smoking as well as cigarettes being purchased in ways that avoid the state tax. In 2019, cigarette tax collections dropped 4.6% to \$514.3 million. (See Figure 3.)

Revenue for other tobacco products such as chewing and loose leaf tobacco grew by 6.6% to \$85.5 million. Meanwhile, liquor and wine tax collections increased by 3.1% to \$53.6 million and the beer tax declined for the second year in a row, falling 4.6% from \$8.9 million to \$8.5 million.

LOCAL TAX TRENDS

Total local tax collections grew 1.8% from \$10.38 billion in 2018 to \$10.57 billion in 2019. With the exception of a slight dip in 2015, local taxes have been increasing steadily for many years but at a relatively slow rate. As a result, local taxes as a share of personal income have decreased to their lowest level in our records going back to 1970, dropping to 3.5% in 2019 from 3.6% the year before and from 4.4% as recently as 2011.

Fig. 3: Cigarette Tax Revenues Falling, Other Tobacco Taxes Rising
Collections in nominal \$ by type of tax, 2000-2019



Sources: State of Wisconsin

This trend reflects various efforts by state officials to hold down property taxes, which are now levied only at the local level following 2017 legislation to repeal the state property tax. Local governments in Wisconsin are unusual in having almost no other taxes besides those on property, which represent 93.5% of all local taxes.

Since 2011, the state in general has limited increases in municipal, county, and technical college levies used for operations to the percentage growth in property values due to new construction, which averaged 1.6% statewide for 2019. As we pointed out in a recent report ([Focus #16-2019](#)), many communities such as those in northern Wisconsin saw even slower growth than that.

K-12 districts make up the largest share of property tax bills and their growth is limited by state-imposed caps on how much revenue school districts can receive per pupil from both taxes and general school aids. From the 2015-16 to 2018-19 school years, the state provided no increase in those revenue limits, which meant smaller increases in K-12 taxes but also contributed to a rise in referenda in which voters in a number of districts opted to exceed the revenue limits. In 2018-19, gross school property tax levies increased by 0.9%, as compared with 2.9% for municipalities, 1.6% for counties, and 2.4% for technical colleges.

This report only includes tax collection data through fiscal year 2019, but it is important to note the 2019-21 state budget approved in July provided an increase in revenue limits for schools. That decision and the rise in school referenda have led to larger school district tax increases for 2020 as reflected on December 2019 bills. (See [Focus #23-2019](#) for more.) In addition, some large communities like Milwaukee and Madison are pursuing additional school referenda in 2020.

County sales taxes, the second-largest local tax, grew significantly in 2019. So did local vehicle registration fees and a key state credit that reduces local property tax bills.

Property tax collections

In 2019, gross property tax collections rose 1.7%, or \$182 million, to \$11.2 billion. However, the actual net taxes paid by property owners did not rise as much because of an increase in the overall state credits that are deducted from property tax bills.

Those three credits – the lottery credit, school levy tax credit, and first dollar credit – reduced property taxes by a combined \$1.3 billion in 2019. As a result, in 2019



net property taxes grew 1.2%, or \$117.6 million, to nearly \$9.9 billion.

The lottery credit increased by 38.2% to \$236.3 million, while the other two credits remained essentially flat. The lottery credit uses a portion of lottery sales to reduce property taxes so it fluctuates depending on lottery revenues.

The school levy credit – the largest of the three – has grown substantially from its 2006 level of \$469 million. But for December 2018 tax bills the credit remained unchanged at \$940 million.

The first dollar credit was first adopted in the 2007-09 budget and initially set at \$75 million. It was \$148.7 million on last year’s tax bills, which was essentially flat.

Sales taxes

In addition to the 5% state sales tax, counties can opt to establish an additional sales tax of 0.5%. County sales taxes for the latest year grew by a notable 11.1%, or \$42.9 million, to \$427.1 million. The increase reflects the same factors that boosted the state sales tax as well as additional growth from counties like Brown and Calumet that were phasing in the tax.

At this point, only four of Wisconsin’s 72 counties (Manitowoc, Racine, Waukesha, and Winnebago) have not adopted a sales tax. Outagamie County is imposing a county sales tax in January 2020 and Menominee County is doing so in April 2020, which could add to the recent trend of larger-than-typical increases in statewide collections.

Since 1996, five counties (Milwaukee, Racine, Ozaukee, Washington, and Waukesha) have had a 0.1% state-imposed sales tax to pay for construction of the Miller Park baseball stadium. Stadium sales tax collections increased by 5.9% in 2019 to \$34.1 million but the tax will be phased out in 2020. Brown County had a similar tax to fund improvements to Lambeau Field in Green Bay that ended in 2015.

Wheel taxes

Municipalities and counties have the option to pass local vehicle registration fees, also known as “wheel taxes,” to use for transportation-related spending only. State law does not limit how much a municipality or county may charge, but most fees are between \$10 and \$30 annually, averaging around \$20.

Wheel taxes have been an option since the 1970s, but as recently as 2011 only four communities had imposed them. With limits on local property taxes and little growth in state transportation aids, more communities have adopted vehicle registration fees in recent years, with the total currently standing at 26 municipalities and 12 counties.

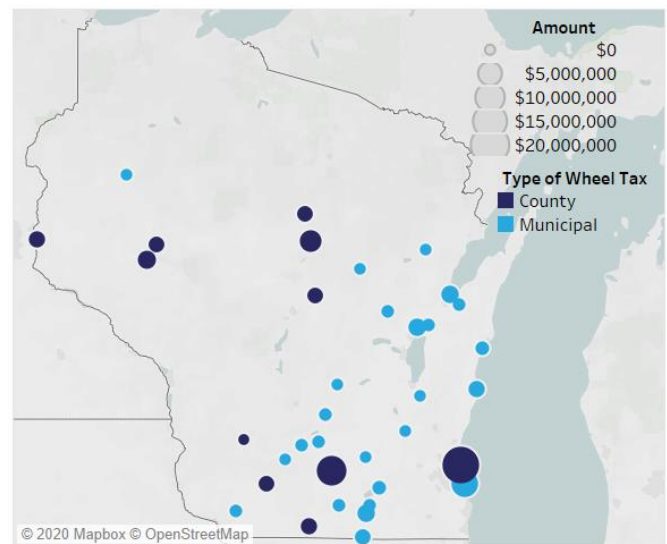
As a result, the revenue from local wheel taxes has grown substantially. In 2019 alone, the collections increased by 37.1% to \$46.5 million. Over the past five years, collections have increased by nearly fivefold. In early 2020, Madison is implementing a \$40 vehicle registration fee expected to bring in nearly \$8 million a year – enough to raise the statewide total for these vehicle registration fees significantly.

Room, premier resort and local expo taxes

Municipalities may also enact hotel room taxes of up to 8% in most cases, provided that at least 70% of the proceeds fund the promotion and development of tourism. Collections have grown rapidly in recent years and totaled \$111.9 million in 2018 – the latest year available.

In addition, a handful of municipalities that are tourist destinations can impose “premier resort area” sales taxes, which increased by 9.3% to \$10.6 million in calendar 2018. Local exposition district taxes – another

Fig. 4: Local Fees Becoming More Common
2019 Local vehicle registration fee revenues by amount and community

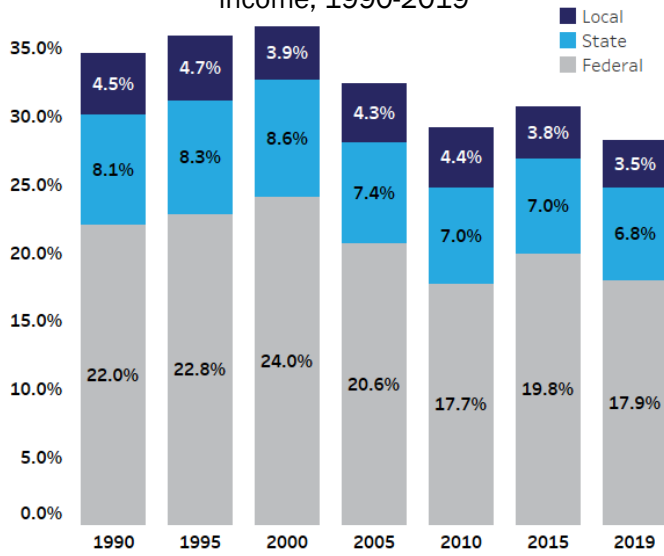


Source: Wisconsin Department of Transportation



Fig. 5: Total Tax Burden Still Falling

Federal, state, and local taxes as % of Wisconsin income, 1990-2019



Sources: State and federal agencies, WPF research

relatively small local tax – increased by 6.5% to \$37.4 million.

FEDERAL TAXES

Though federal taxes are not the main focus of this report, they comprise the majority of taxes paid by Wisconsinites (\$53.68 billion in estimated 2019 federal taxes compared to \$30.99 billion in state and local taxes). Federal tax collections in Wisconsin grew by an estimated 3.2% in 2019, more slowly than personal income as well as total state and local taxes.

As a result, the federal tax burden declined more quickly than the combined state and local tax burden. In 2018, federal taxes accounted for 18.2% of personal income in Wisconsin, while in 2019 the ratio fell to an estimated 17.9%. The current estimated federal tax burden is almost as low as it was a decade ago. Over the past five years the federal tax burden has decreased by an estimated 9.8%, while the state and local tax burden has fallen by 4.3%. The vast majority of federal tax collections in Wisconsin (91.9%) consist of individual income taxes. The next largest portion is corporate income taxes at 6.3%.

The 2017 Tax Cuts and Jobs Act made a number of federal tax changes that on balance lowered collections. The individual income tax changes included eliminating personal exemptions, doubling the child tax credit, and

nearly doubling the standard deduction. The corporate tax rate was also lowered to 21%.

Our federal figures are derived from Internal Revenue Service (IRS) data, with the most recent year's figures estimated using projections from the Office of Management and Budget (OMB).

CONCLUSION

Wisconsin's state and local tax burden now stands at its lowest level in a half century. Whether the trend will continue depends in part on the state's economy and the incomes of its citizens. If sustained, the recent growth in personal income in Wisconsin could continue to help offset increases in tax collections as it has done in recent years.

Local tax collections will be another key factor. State-imposed caps on local property taxes and revenues have caused local taxes as a share of income to fall in recent years. Yet, as we have noted, in recent years local officials have sought new ways to pay for key services, imposing vehicle registration fees and turning to referenda that are now contributing to growth in overall tax levies.

The state budget is increasing school revenue limits and state aid for this year and next year. The combined effect of those changes will lead to some growth in K-12 property tax levies as well as increased funding for education.

For its part, the state has seen greater growth in its tax collections in recent years. Yet it may still face its own challenges in keeping up with growing costs in areas such as Medicaid, transportation, corrections, and aid to local schools. The current state budget also trimmed income taxes, among other changes.

In Wisconsin, lawmakers and the governor play a big role not only in deciding state taxes and finances, but also in setting the authority that local officials have to impose their own taxes. If control of state government remains divided, then big changes to state and local taxes would appear unlikely. In the absence of an economic downturn, the state and local tax burden in the near term is likely to see gradual changes rather than an abrupt shift.

