

# STATE TAX BURDEN - AND RANKING - FALL AGAIN

*Amid a turbulent economy and a global pandemic, Wisconsin's tax burden continues to fall compared to other states and to its own past, new data show. COVID-19 could mean many changes ahead, but as the crisis began Wisconsin taxes as a share of income were the lowest in at least 50 years. Separate national data for the most recent year also show the state-local tax burden was below the U.S. average for only the second time in decades.*

For the ninth straight year, the state and local taxes paid by Wisconsin residents and businesses in 2020 fell as a share of income in the state. The growth in state taxes in particular slowed, with income tax collections falling for the first time since 2014 and sales tax collections growing at their slowest rate since 2010.

The effect of the coronavirus could be seen across many of the state's major revenue streams, with gas tax collections falling for the first time since 2013 and driver's license fees also dipping. One exception was corporate tax revenues, which remained surprisingly strong despite the downturn.

Local taxes rose more rapidly, hitting their fastest growth since 2010. The larger increase reflects the fact that the property tax – Wisconsin's most important local tax by far – remains more stable in recessions and was increased by local officials on bills that went out a year ago prior to the pandemic. Among local taxes, the main pandemic-related impacts involved sales taxes – mostly at the county level – and room taxes on hotel stays.

Though both state and local taxes grew in the most recent year, their overall increase was outpaced by the income that state residents collectively receive from employers and many other sources. That left the tax burden slightly smaller when measured according to Wisconsin's ability to pay it – 10.2% in fiscal year 2020 compared to 10.3% in 2019 (see Figure 1). That was the lowest since at least 1970.

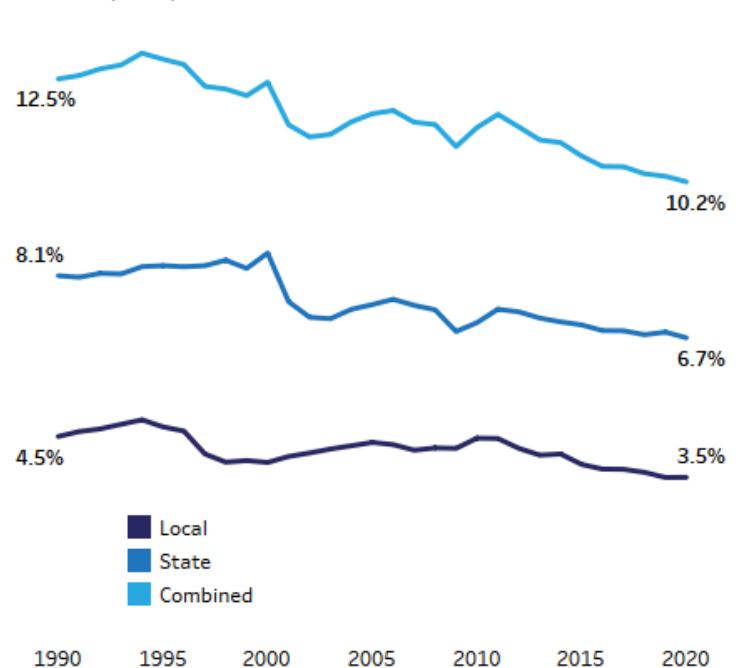
Each year, the Wisconsin Policy Forum collects data on dozens of state and local taxes – from those on bingo and utilities to corporate profits – and our records

stretch from 1970 through the fiscal year ended on June 30, 2020. We also reviewed similar national data from the U.S. Census Bureau to determine how Wisconsin ranked among all states in 2018 – the most recent year available.

To make comparisons across states and across time, we relate state and local tax collections to both personal income and population in Wisconsin and other states. Total personal income – which includes wages, salaries and employer benefits, investment and

**Figure 1: State-Local Tax Burden Falls**

State, local, and state-local combined taxes as % of WI income



Sources: State of Wisconsin agencies; Wisconsin Policy Forum research



business income, and government benefits - rose 3.4% in calendar year 2019, the most recent full year available.

So far during the pandemic, tax collections and personal income in Wisconsin have held up relatively well. A key reason was the federal Coronavirus Aid, Relief, and Economic Security (CARES) Act, which injected billions of dollars of relief into the state's economy and the bank accounts of residents and businesses. In the second quarter of calendar year 2020, that more than offset the severe loss of income due to record unemployment.

COVID-19 is lingering, creating ongoing challenges for the economy and adding to the demand for public services. The latest round of federal relief legislation should help prop up incomes – and by extension tax collections in the state – and may help the state maintain services while limiting potential tax increases.

## WISCONSIN'S TAX RANK FALLS

As recently as 2011, Wisconsin still ranked within the top 10 states nationally for state and local taxes as a share of income, as was generally the case during the 1990s and 2000s. Some may still see the state's taxes as high in some respects, in part because of the relatively high property taxes for residential homeowners in particular and income tax rates for middle-class workers. Yet in terms of the state's overall tax collections, the latest U.S. Census Bureau data demonstrate that is no longer the case.

In 2018, the data show the state and local tax burden dropping to 10.2% of income from 10.3% in the prior year (the Census Bureau data generally track the Forum's own tax data but are often modestly different). Though a small decline, it left Wisconsin below the national average of 10.4% and was enough to drop the state's tax ranking from 17<sup>th</sup> highest in the country to 23<sup>rd</sup>. See the Rankings Interactive (Figure 2) for more.

In addition, the tax ranking somewhat overstates how state and local government spending in Wisconsin compares to other states for several reasons. First, Wisconsin lags other states in revenue from the

federal government, ranking 43<sup>rd</sup> among states and putting more pressure on state and local taxpayers to fund services.

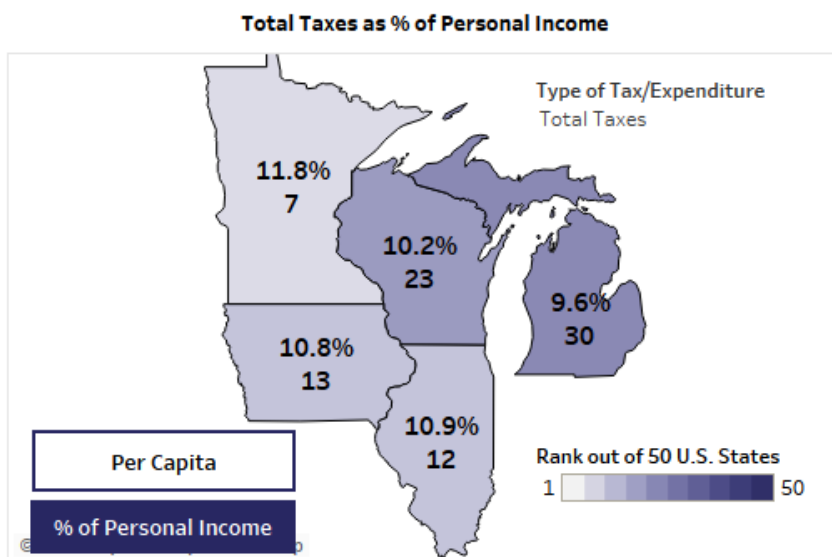
Second, on a per capita basis, personal income in Wisconsin continues to trail the U.S. average. That means the taxes paid by state residents take up more of their income in Wisconsin than they would if personal income in the state caught up to the rest of the country.

Last, state and local governments here are also somewhat below average in terms of the fees they charge to the public for services. Those facts help explain why state and local spending in Wisconsin ranks 26<sup>th</sup> nationally on a key measure known as direct general expenditures – or somewhat lower than its tax ranking alone would suggest.

While Wisconsin's state and local tax burden has declined to a "middle of the pack" position nationally, the state ranks 13<sup>th</sup> highest nationally for income taxes – down two slots from the previous year – and 16<sup>th</sup> highest for property taxes. Those higher rankings reflect in part a greater reliance on those types of taxes in Wisconsin compared to other sources of revenue. The ranking for property taxes would be even higher if we looked only at those levied on homeowners, who receive

**Figure 2: Wisconsin and Its Neighbors: Taxing and Spending in 2018**

This interactive displays state and local tax and spending rankings for Wisconsin and each of its four neighbor states. The data come from the U.S. Census Bureau, and have a two-year lag, meaning they are from 2018. Select a category from the drop-down menu to see how per capita revenues or spending in these five states rank, or select the "% of personal income" button to switch to share of personal income rankings.

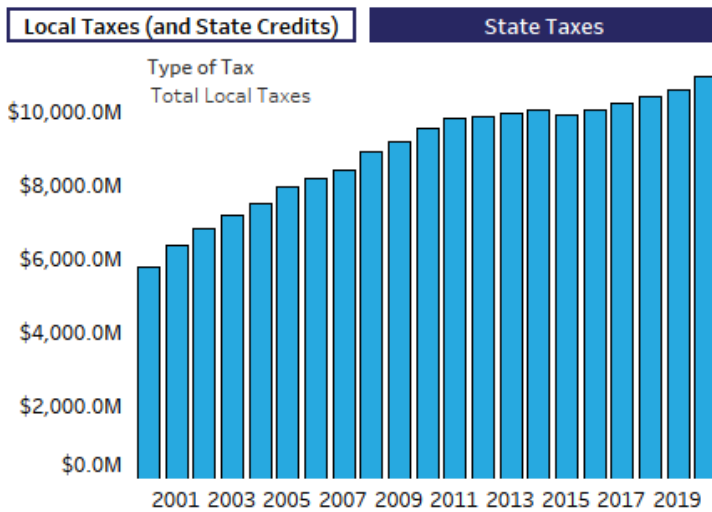


Source: U.S. Census Bureau



**Figure 3: Local and State Taxes**

Use the buttons and dropdown menu to select a state or local tax in Wisconsin and see statewide collections dating back to 2000.



Sources: Compiled by the Wisconsin Policy Forum using published and unpublished information from the Wisconsin Departments of Revenue, Administration, Workforce Development, Natural Resources, and Transportation; the U.S. Bureau of Economic Analysis; and the Internal Revenue Service. Note: Columns may not add up due to rounding and some omission. Room tax figures are projected for the most recent year and also have a one year lag.

less preferential treatment in Wisconsin compared to some other states.

Those higher taxes, however, are balanced out by comparatively lower sales taxes in Wisconsin. They ranked 38<sup>th</sup> highest – well below average – a fact that state residents often overlook.

## WISCONSIN'S TOTAL TAXES FOR 2020

The Census Bureau figures provide a broad overview of state and local revenues in Wisconsin and an easy way to compare tax burdens across states. For more detail, however, the Wisconsin Policy Forum gathers a more extensive set of data that accounts for every state and local tax and goes back a half century.

Total state and local taxes in Wisconsin rose to \$31.7 billion in 2020, up 2.3% from just under \$31 billion the previous year. Since personal income rose more rapidly, the overall tax burden dropped. The decrease in the burden was driven by a slowdown in state tax collections, which grew 1.5% to \$20.71 billion in 2020 from \$20.42 billion in 2019. Read on or explore the interactive (Figure 3) for more.

As in past reports, this review uses personal income data from the most recent full calendar year and thus

does not reflect the economic disruption caused by the pandemic. It remains to be seen how COVID-19 will affect income going forward, but the latest figures for the first half of 2020 show a somewhat surprising trend in which personal income actually rose in Wisconsin and the nation.

The reason is straightforward – the substantial drop in income from workers' earnings due to factors such as layoffs was more than offset by increased government payments such as stimulus checks and unemployment insurance that were either created or boosted by the federal CARES Act. The recent decision by Congress to renew some of those measures (though in some cases at lower levels or based on somewhat different criteria) should bolster the incomes of state residents in 2021 from what could have otherwise been more substantial impacts from the pandemic.

## STATE TAXES

State tax collections grew by their slowest pace in a decade, which reflects in part the effects of the pandemic as well as state policies, such as using increases in sales tax collections from certain online and out-of-state retailers to cut income tax rates.

The overall state tax burden fell from 6.8% of income in 2019 to 6.7% of income in 2020. That is the lowest level on record in Wisconsin Policy Forum data stretching back to 1970.

### Individual Income Tax

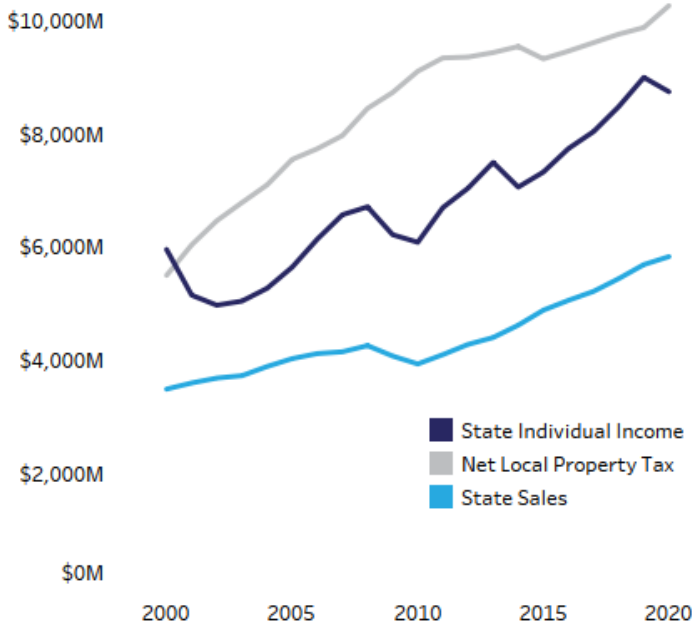
The individual income tax – the state's largest tax – saw the greatest impact from COVID-19. Revenues from this tax fell by 2.8%, or more than a quarter-billion dollars, dropping to \$8.74 billion in 2020 from \$8.99 billion in 2019 (see Figure 4 on page 4). That was a bigger drop than the 0.5% decrease seen nationally in 2020 state income tax collections [reported to the National Association of State Budget Officers \(NASBO\)](#). Though the Wisconsin figure is final, some NASBO figures are estimates.

The decrease in Wisconsin – the first in six years – reflects factors such as workers' lost earnings, lower investment income, and decreased business profits for those owners who report this income on their individual tax returns. In response to COVID-19, the state also delayed the filing of income tax returns and estimated



**Figure 4: Income Tax Declines During Pandemic**

Individual income, net property, and sales tax revenues in current \$



Sources: Wisconsin Annual Fiscal Reports; state Department of Revenue

as well as final payments of individual and corporate income taxes in 2020 from April and June to July 15.

Collections for the 2019 tax year were also lowered by \$77 million because a provision in state law that requires additional sales tax revenues from the customers of certain online and out-of-state businesses to be used to cut income tax rates. As we recently noted, this provision will have a [much larger effect on rates](#) – \$256.4 million – for the 2020 tax year.

### Sales Tax

The next largest source of state revenue is sales tax collections, which rose 2.5%, or \$140.7 million, in 2020 to \$5.84 billion. This was the slowest growth in a decade. If sales taxes had simply increased by their average rate over the previous five-year period of 3.9%, then they would have been roughly \$80 million higher. However, the slower growth here was still better than the estimated 0.6% increase reported by all states to NASBO.

Sales tax collections were affected substantially by the pandemic, which struck particularly hard at some kinds of businesses that collect sales taxes such as bars, restaurants, and hotels. On the other side, sales tax revenues were boosted by a [2018 U.S. Supreme Court](#)

[decision](#) and a 2019 state law that allowed for greater collections by select online and out-of-state businesses (as mentioned above).

Those actions helped ensure the state did not lose out on revenues collected by internet retailers at a time when the pandemic caused many consumers to make more of their purchases online. The Department of Revenue and Legislative Audit Bureau estimated those measures increased sales tax collections by \$257.3 million in a 12-month period that mostly overlapped with the state's 2020 fiscal year. Without those additional revenues, fiscal 2020 sales tax collections likely would have been flat or even down.

### Corporate Income Tax

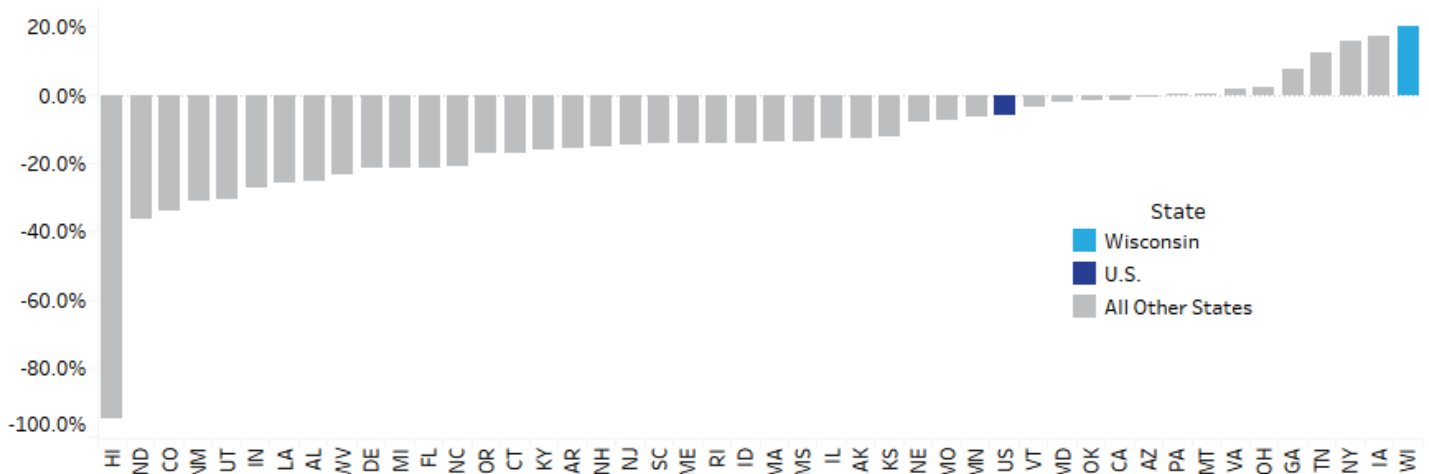
After growing at their fastest rate in [more than a half century](#) in 2019, corporate income tax revenues continued to rise rapidly last year despite the economic downturn. The state collected \$1.61 billion in corporate tax revenues in 2020, up 20.2% from the previous year. That was the largest percentage increase of any state in the estimated corporate tax collections reported to NASBO (see Figure 5 on page 5).

The growth in Wisconsin might surprise some, since corporate taxes typically react quickly to economic conditions and might have been expected to show more effects from the downturn as they have in past recessions (and are currently showing nationally with a 5.8% drop). Instead, corporate tax revenues in Wisconsin in 2020 rose to their highest inflation-adjusted total since 1970 at least (see Figure 6 on page 6). The governor's administration currently is projecting further growth in 2021.

The Forum has noted several factors that may have played a role in strengthening collections in recent years, from an [increase in state auditors](#) to federal and state legislation that may have led more business entities to file and pay their [taxes at the corporate level](#). Like workers, businesses benefited as well from various efforts at the federal level to bolster the national economy amid the blows from the coronavirus.



**Figure 5: Growth in WI Corporate Tax Collections Nation's Largest**  
 % Change in 2020 Corporate Tax Collections by State\*



Source: National Association of State Budget Officers; \*WI figure is final, but some other state amounts are estimates.

### Excise Taxes

The state imposed a minor new tax on vaping products in 2020 at a rate of five cents per milliliter of liquid or other substance. It brought in \$1.3 million, less than the expected amount of \$2.3 million.

Though not a major part of the state budget, Wisconsin does rely more heavily than most other states on taxes on cigarettes and tobacco products and also collects excise taxes on beer, liquor, and wine. After falling for several straight years, cigarette tax collections rose 1.8% in 2020 to \$523.6 million.

Revenue for other tobacco products such as chewing and loose-leaf tobacco grew by 6.9% to \$91.4 million. Liquor and wine tax collections increased by 2.2% to \$54.8 million while beer tax revenues remained flat at \$8.5 million in 2020.

### Gas and Transportation Taxes

Gas tax collections took a notable hit due to the pandemic, adding to the challenges the state was already facing in funding roads and other infrastructure. Fuel taxes dropped by 4.1% in 2020 to \$1.02 billion as workers logged in from home or were laid off by their employers, curbing commuting. Vacation travel was also curtailed.

In addition to the gas tax (also known as the motor vehicle fuel tax), transportation revenues include 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. That's in contrast to the state taxes discussed above, which flow into the general fund and are used for priorities such as health care, K-12 schools, prisons, and the University of Wisconsin System.

Vehicle registration fee revenue did rise by 19.2% to \$839.2 million in 2020, which is the largest year-to-year increase since 1970. This may be at least partially explained by an increase in the state's vehicle registration fee from \$75 to \$85 that was adopted as part of the current state budget and took effect in October 2019.

Driver's license revenues fell by 3.9% to \$39 million in 2020. The pandemic initially caused a suspension of road tests, which created a backlog and led the state to waive that test under certain conditions.

### Unemployment Tax

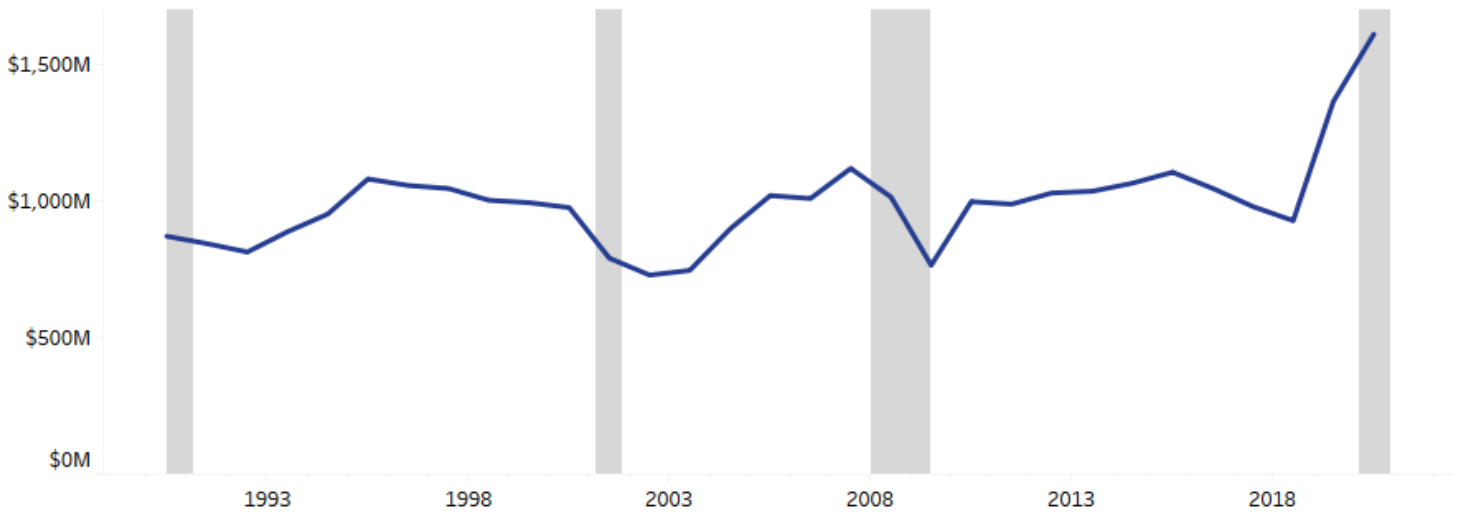
Unemployment taxes will likely rise in future years to help replace the reserves lost as the state's unemployment fund has paid out more than \$1 billion in benefits to hundreds of thousands of jobless workers. No increase will happen, however, until [2022 at the earliest](#).

In 2020, unemployment tax collections actually fell 5.4% to \$537.7 million – just half of what they were as recently as 2015. Unemployment taxes rose sharply along with joblessness during the Great Recession but have fallen since 2013 as the state unemployment trust



**Figure 6: Unlike in Past Downturns, Corporate Tax Collections Rising not Falling**

Corporate Tax Collections in 2020\$, Gray Bands Represent Recessions



Source: Wisconsin Annual Fiscal Reports; National Bureau of Economic Research

fund first repaid a federal loan and gradually built up a substantial balance.

These reserves are being tested amid the current crisis. As of mid-December, however, the unemployment fund still had roughly \$1.2 billion.

## LOCAL TAXES

Total local tax collections rose by 4% to \$10.98 billion in 2020 from \$10.57 billion the year before - the largest percentage increase since 2008. However, local taxes as a share of personal income remained flat compared to 2019 at 3.5%. That is the lowest level in our half century of records.

The low tax burden largely reflects successful efforts by state officials over the past decade to hold down property taxes, the largest single tax in Wisconsin and one that accounts for nearly all local taxes. In recent years, local governments have seen some increases in other tax collections such as vehicle registration fees and – prior to the pandemic – county sales and municipal room taxes. But those taxes are minor compared to the property tax.

### Property Tax Collections

In 2020, gross property tax collections grew by 3.7% to \$11.62 billion. The actual net taxes paid by property owners after subtracting state credits rose by a slightly greater percentage (3.9%) to \$10.26 billion. In both cases, that was the largest growth in a decade though it was in line with the increases seen from 2000 to 2010.

As we noted a year ago, that growth was driven by an [increase in school property taxes](#), which rose because of factors that included the success of recent voter referenda as well as increases in state-imposed revenue limits on schools.

The 2020 tax levy was not affected directly by COVID-19 since it reflects bills sent out in December 2019. Likewise, December 2020 property tax bills still will use pre-pandemic property values calculated as of Jan. 1, 2020. A key issue to watch, however, will be whether increasing numbers of financially strapped home and business owners become delinquent in making their property tax payments.

The three state property tax credits – the lottery credit, school levy tax credit, and first dollar credit – reduced local tax levies by a combined \$1.36 billion in 2020, or 2.6% more than in 2019. The lottery credit increased by 14.3% to \$270 million while the other two credits remained essentially flat at just under \$150 million for the first dollar credit and \$940 million for the school levy credit.

### Sales Taxes

In addition to the 5% state sales tax, counties can opt to impose an additional sales tax of 0.5%. County sales tax collections grew by 6% in the most recent year to \$453.2 million, much slower than the 11% growth registered in the previous year but still relatively robust.



That strength reflects the fact that county sales taxes in our reports use calendar year data and the 2019 figures were not impacted by the coronavirus. Outagamie County and Menominee counties both imposed a sales tax in 2020 and those additions are boosting statewide collections that have been lagging in other respects because of the coronavirus this year. At this point, only four of Wisconsin’s 72 counties (Manitowoc, Racine, Waukesha, and Winnebago) have not adopted a sales tax.

A local sales tax was also phased out mid-year in 2020. Since 1996, five counties (Milwaukee, Racine, Ozaukee, Washington, and Waukesha) had collected a 0.1% state-imposed sales tax to pay for construction of the Miller Park baseball stadium. Stadium sales tax collections dropped by 15% or \$5.1 million in 2020 to \$28.9 million, reflecting the fact that the tax was not in place for the full year.

### 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. Most fees are between \$10 and \$30 annually, though Madison implemented a \$40 fee last year.

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 28 municipalities and 13 counties imposing one by January 2021.

As a result, the revenue from local wheel taxes has grown substantially. In 2020 alone, the collections increased by 20.5% to \$56 million.

### 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 \$116.8 million in calendar year 2018 – the latest year with a final amount available. This report does not yet account for the massive losses in room tax collections being seen in many communities because of the coronavirus.

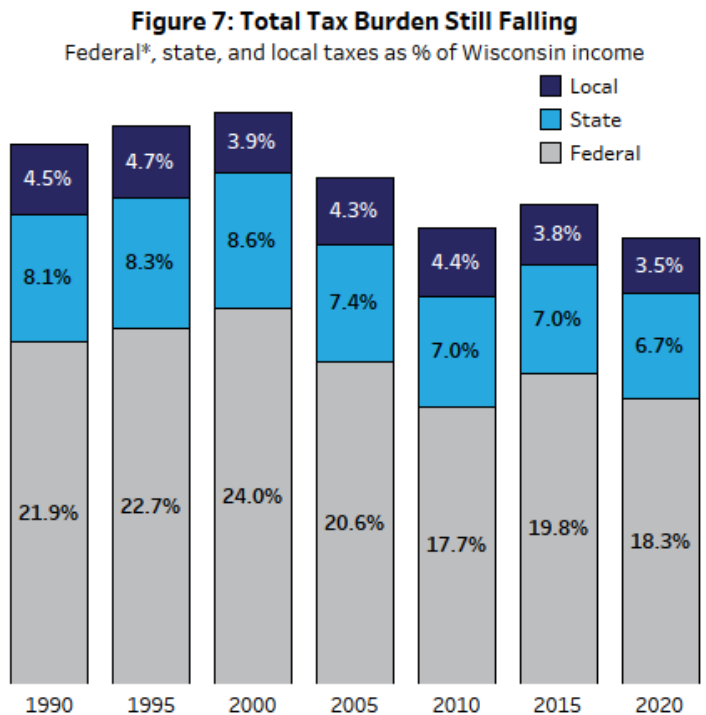
In addition, a handful of municipalities that are tourist destinations can impose “premier resort area” sales taxes, which dipped slightly by 2% to \$10.4 million in calendar 2019 even before the pandemic. Exposition district taxes – imposed only in the Milwaukee area – dropped by 5% to \$35.5 million.

## FEDERAL TAXES

Federal tax collections from Wisconsin taxpayers are also now at or near their lowest levels in more than a generation. Though federal taxes are not the main focus of this report, they comprise the majority of taxes paid by Wisconsinites (\$56.57 billion in estimated 2020 federal taxes compared to \$31.7 billion in state and local taxes).

The vast majority of federal tax collections in Wisconsin (nearly 92%) consist of individual income and payroll taxes. The next largest portion is corporate income taxes at 6.7%.

We estimate that growth in federal tax collections in Wisconsin outpaced personal income in 2020, leading the federal tax burden to grow to an estimated 18.3% of income. In 2019 – the most recent year for which we have actual tax figures for Wisconsin – the federal tax burden was 17.6% of income, which was tied with 2008



Sources: Internal Revenue Service and Office of Management and Budget;  
\* Federal 2020 tax burden is an estimate



and 2010 for the lowest in our records going back to 1970. Therefore, the combined 2019 tax burden for federal, state, and local taxes was the lowest in our records and the estimate for 2020 – which is still subject to revision – was second-lowest (see Figure 7 on page 7.)

## CONCLUSION

At every level of government, taxes in Wisconsin generally have been falling for decades as a share of residents' income. Wisconsin has dropped to the middle of the pack for taxes as a share of income despite lower per capita income and below-average levels of federal aid.

In the near term, the pandemic will weaken tax collections and the economy. It will also impact the income of state residents and with it their ability to pay the tax liabilities that remain. Meanwhile, looming state budget challenges may cause officials in the state Capitol to consider tax increases or perhaps cuts in aid to local governments, which could spur property tax increases instead.

The pandemic also continues to highlight the necessity of services such as public health. Going forward, state and local officials will face pressure to maintain those services and perhaps respond to some shifting attitudes from voters on priorities such as schools, health care, and public safety. Recent successful school referenda have shown that voters are willing in some circumstances to choose higher taxes in exchange for maintaining or improving the education of children in their community.

With the economy unsettled and life-and-death demands being placed on state and local agencies, the next year will pose a difficult test for policymakers. At issue will be balancing the goals of maintaining both low tax burdens and sufficient resources for state and local governments to address the lingering service demands and economic after-effects of what we hope will be in time a fading global pandemic.

