STATE TAX BURDEN DROPS YET AGAIN

As the pandemic and the resulting recession hit in 2020, Wisconsin’s state and local tax burden fell to its lowest level in at least a generation, new data from the U.S. Census Bureau show. Despite the decrease in tax revenues as a share of income in Wisconsin, the state’s tax ranking compared to other states actually became somewhat less favorable. That’s likely due to tax collections in other states being hit harder by COVID-19. Wisconsin’s tax burden, however, remains below the national average despite the state receiving less from fees and federal aid.

With COVID-19 putting downward pressure on the state’s economy, state and local tax collections in 2020 rose just 1.7% – the smallest increase since 2015 – new federal data show. The modest growth in tax revenues that year helped ensure the state’s tax burden hit its lowest level in decades.

Paradoxically, however, the state’s tax ranking actually rose compared to other states. That’s because Wisconsin’s state and local tax collections still grew somewhat in 2020 – a testament to this state’s relatively strong economy in the early stages of the pandemic and its heavy reliance on the relatively stable property tax. Nationally, state and local tax revenues fell just slightly, with only 25 states seeing any increase in tax revenues at all in 2020. Wisconsin had the 16th-highest increase in state and local collections in 2020 despite making no major increase in state tax rates.

To analyze Wisconsin’s taxing and spending rankings, we use annual data from the U.S. Census Bureau plus population and personal income figures from the U.S. Bureau of Economic Analysis. Readers should note the latest Census data is for fiscal year 2020 (which ran from July 2019 to June 2020) and captures only the first several months of the pandemic and none of the state’s recent $1 billion income tax cut.

This continues a two-decade trend that has given Wisconsin one of the largest drops in the tax burden of any state and lowered Wisconsin’s tax levels from the highest among its four neighboring states to the second-lowest (above only Michigan). At the same time, this shift has also contributed to decreased spending on K-12 education compared to other states.

Despite the drop in its tax burden, Wisconsin climbed in the state rankings from 24-highest in the country in 2019 to 18th in 2020. The rise in the rankings reflected the relative stability of Wisconsin’s property tax and overall tax collections in the early stages of the pandemic rather than an increase in tax rates and the state’s ranking is still one of the most favorable of the past three decades.

Figure 1: Tax Burden in Wisconsin Still Below Average

As a share of personal income in the state, Wisconsin’s tax revenues dropped from 10.3% in 2019 to 10.07% in 2020 (see Figure 1). That was the lowest figure on record for the state in Census data going back to 1993. For the third year in a row, that was also below the national average, which was slightly higher at 10.12% in 2020.
Compared to the ranking by personal income, the state’s ranking for taxes per capita rose by somewhat less compared to other states. In 2019, the state ranked 24th nationally for state and local taxes per capita at $5,208 while in 2020 Wisconsin ranked 22nd at $5,280 – below the national average of $5,637.

Notably, this analysis shows only a drop in the average tax burden in Wisconsin – some taxpayers benefited less and others more. Earlier this year, for example, a Forum analysis of the state’s income tax found that average income tax rates have fallen for most Wisconsinites over the past decade but have declined more for those with higher incomes while becoming less favorable for those with the very lowest incomes.

**TAXES AND OTHER REVENUE**

Overall, state and local taxes in Wisconsin rose 1.7% in fiscal 2020 to $31.05 billion, up from $30.52 billion in 2019. This relatively modest increase was still much better than the slight decline of 0.1% in state and local taxes nationally (see Figure 2).

As is the case in most states, Wisconsin’s state and local tax revenue comes from three main sources: property taxes, sales taxes, and income taxes.

Local governments in Wisconsin are particularly reliant on property taxes, which rose 3.1% to $10.12 billion in 2020. The increase outpaced the rate of inflation at the time but was slightly below the average increase in property taxes nationally. In part as a result, the state’s ranking for property taxes as a share of personal income remained 17th-highest among the 50 states and was unchanged as a share of personal income at 3.3%. That percentage has fallen from 3.8% of personal income in 2000 and the state’s national ranking has decreased from 10th-highest that year.

Wisconsin also relies heavily on income taxes. In 2020, the state collected about $8.51 billion in individual income tax revenues, a decrease of 2.8% that reflected the downturn from the pandemic as well as certain state policy decisions. The state income tax collections fell slightly to 2.8% of personal income and $1,448 per capita, which rank 13th and 12th-highest in the country respectively. Though relatively high, this was a decrease from 4% of personal income in 2000 and a ranking of fifth-highest nationally at the time.

Corporate income tax collections in Wisconsin grew 7.9% in 2020 to $1.44 billion and as a share of personal income rose slightly to just under 0.5%. Nationally, however, corporate tax collections actually fell 10.7%. As a result, Wisconsin’s ranking for corporate tax burden rose from 15th-highest to eighth.

Wisconsin relies less than most states on revenues from general sales taxes, which totaled $6.31 billion in 2020, an increase of 2.5% that outpaced the average growth nationwide of 1.7%. The sales tax burden fell just slightly in Wisconsin to 2% of personal income and the state continued to rank 32nd-highest nationally for general sales taxes.

Wisconsin also receives much less than average from federal aid and from fees or charges for public services. Charges for services, such as sewer fees and tuition at
public colleges and universities, stayed roughly flat in 2020 and accounted for 2.9% of personal income that year, with the state ranking 31st-highest nationally.

As Congress and then President Donald Trump poured out pandemic aid to states, federal revenues to Wisconsin grew 25.2% from $10.9 billion in 2019 to $13.65 billion in 2020, or 4.4% of personal income in the state. However, since the federal aid increased for all states, Wisconsin’s ranking remained relatively low for federal aid as in past years – 37th-highest nationally in 2020 compared to 38th-highest in 2019.

**SPENDING**

The lower levels of revenue from fees and federal aid help explain why Wisconsin’s ranking for overall state and local spending remains lower than its tax rankings.

State and local spending in Wisconsin grew in 2020 but remained relatively unchanged as a share of personal income. Direct general expenditures totaled $57.69 billion in Wisconsin in 2020, up 3.7% from the previous year. Spending as a share of income hovered at about 18.7% in both years and the state’s rank rose slightly to 29th-highest in 2020 from 30th in 2019.

As noted previously, the decrease in the state’s tax burden over the past 20 years has translated into a decrease in state and local spending overall and on education in particular. The state’s ranking for spending on K-12 schools totaled 4.1% of personal income in 2020, which was down only slightly from 2019 but substantially lower than the 5.2% of personal income in 2000. The state’s ranking in 2020 was unchanged from the previous year at 24th-highest nationally. Wisconsin’s ranking for state and local spending on higher education fell from 16th-highest in 2019 to 19th-highest in 2020 as spending on that fell here by nearly 1%.

Public welfare spending, such as Medicaid health coverage for low-income residents, grew from 4.5% of personal income in 2019 to 4.6% in 2020 and the state’s ranking rose from 22nd-highest to 21st. The spending increase may reflect the higher unemployment and greater need of state residents resulting from COVID-19. Corrections spending grew by 5% in 2020 but Wisconsin’s ranking stayed at 16th-highest.

The state’s ranking for public safety spending fell somewhat. State and local expenditures on police fell from 27th-highest in 2019 to 29th-highest in 2020. Meanwhile, spending on firefighters and fire protection rose slightly from 38th-highest to 37th.

**A LOOK AHEAD**

The state’s tax burden and tax rankings will likely see some movement in the next two years of data. For example, we know from WPF’s separate reports on state tax collections that they rose substantially in Wisconsin in fiscal 2021. Though local tax collections increased much more slowly here, the increase in state collections will likely be enough to increase Wisconsin’s overall tax burden in the Census figures that will be released next year for 2021. The state’s tax ranking is harder to predict since many states benefited from a strong rebound in tax collections last year.

The story for 2022 is likely to be quite different. The 2021-23 budget signed by Governor Tony Evers last year included more than $1 billion in state income tax cuts in fiscal 2022 alone. The budget also included substantial state funding increases for schools that helped hold down K-12 property taxes but did not contribute to big increases in school spending since the state kept its tight limits on school revenues. Those state policies should put some downward pressures on Wisconsin’s rankings for taxes and K-12 spending.

The next state budget will also be important to watch given both the state’s strong financial position and the possibility of a new governor taking over. The state is now projecting combined general and rainy day fund reserves of more than $7 billion at the close of the current budget and both Evers and his challenger, Tim Michels, have put forward plans to use part of the surplus to cut taxes further in the 2023-25 state budget. That could potentially reduce the share of Wisconsin residents’ incomes going to both taxes and spending on state and local services going forward.