

STATE TAX RANKING HITS ALL-TIME LOW

Driven by strong growth in incomes, tight property tax limits, and a \$1 billion state income tax cut, Wisconsin's state and local taxes as a share of personal income and its national ranking for its tax burden fell to their lowest levels on record in 2022. Once a top ten state for its tax levels, Wisconsin has fallen to well below average and has also seen its spending drop in key areas such as K-12 education – a major shift in state and local policy.

State and local taxes in 2022 fell to a record low of just 9.9% of personal income in Wisconsin, down from 10.3% the year before, new federal data show. This drop in what is often called the state's tax burden caused Wisconsin's tax ranking to fall to 35th nationally – the lowest on record.

Rising incomes, state limits on local property taxes, and the recent large state income tax cut here helped lower Wisconsin's taxes as a share of income to 1.2 percentage points below the national average of 11.1% in fiscal year 2022 (see Figure 1). Though Wisconsin's tax burden has edged just below the U.S. average in the past, it has never been so far below that of the nation.

Going forward, sizable local property tax referenda and increases in Milwaukee sales taxes may slow or halt the decline in this measure. Yet there is little doubt of the deep impact that this trend has made over the past generation for both bills to taxpayers and spending levels on a variety of public services in the state.

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. The latest Census data is for fiscal year 2022 (July 2021 to June 2022).

TAX BURDEN HITS NEW LOW

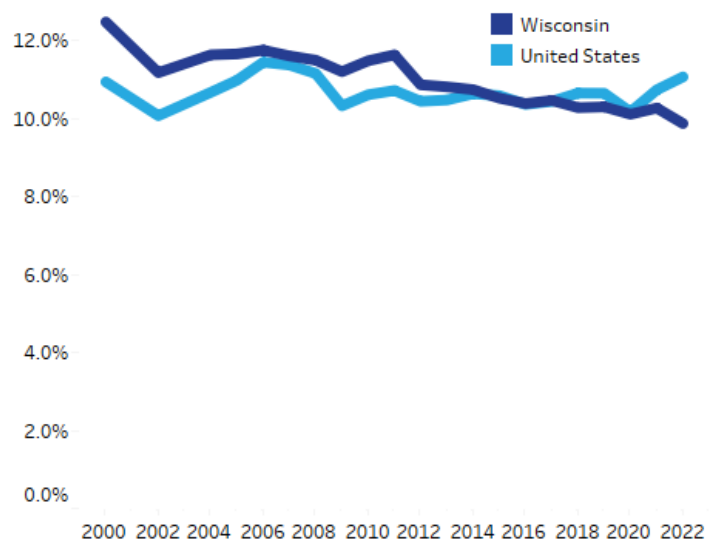
With inflation running hot in 2022, state and local tax collections grew by 12.6% nationally. In Wisconsin, however, lawmakers and Gov. Tony Evers lowered the tax rate in the state's third income tax bracket [from 6.27% to 5.3%](#) starting with calendar year 2021. That roughly \$1 billion cut helped limit the growth in state and local tax revenues here to 4.6% in fiscal 2022.

Without this income tax cut, the tax burden would have still fallen but less sharply.

Meanwhile, personal income (a measure including wages, interest, dividends, and government payments to individuals) rose by 8.8% in Wisconsin and 9.2% nationally. The income growth sharply lowered the tax burden in Wisconsin but was not enough to keep taxes from growing as a share of income nationwide.

This continues a two-decade trend that has given Wisconsin the [largest drop in the tax burden](#) of any state and lowered its tax levels from the highest among its four neighboring states in 2000 to the second-lowest in 2022 (above only those of Michigan). At the same time, this shift has also contributed to [lower spending on K-12 education](#) here compared to other states.

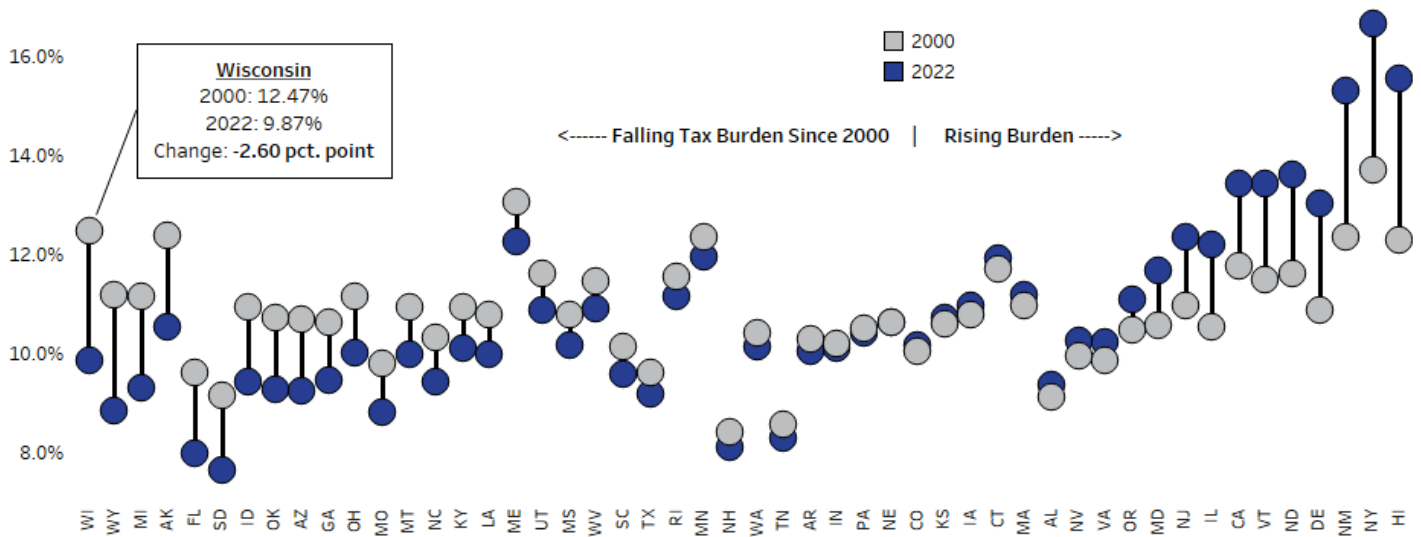
Fig. 1: Wisconsin Tax Burden Falls Well Below U.S. Average
State and local taxes as a share of personal income by year



Sources: U.S. Census Bureau and U.S. Bureau of Economic Analysis



Figure 2: Wisconsin Has Largest Drop in Tax Burden Since 2000
 Percentage point change in total state and local taxes as a share of personal income, 2000 to 2022



Sources: U.S. Census Bureau, Bureau of Economic Analysis

As recently as 2000, Wisconsin was ranked third-highest nationally for taxes as a share of personal income. In 2022, however, the tax ranking dropped to 35th nationally, which was the lowest since at least the 1990s and a drop from 26th nationally in 2021.

In falling from 12.5% in 2000 to 9.9% in 2022, Wisconsin’s tax burden dropped by 2.6 percentage points, or 20.9%. Both of those decreases were the largest of any state in the nation over those years (see Figure 2). Wisconsin’s drop came during a period of widening gaps between state and local taxes. In 2000, there was a 5.25 percentage point gap between the two states with the highest and lowest tax burden but by 2022 the gap had grown to nearly nine percentage points.

Compared to the ranking as a share of personal income, Wisconsin’s ranking for taxes per capita fell by somewhat less, though it also dropped to a record low. In 2021, the state ranked 24th nationally for state and local taxes per capita at \$5,689, while in 2022 Wisconsin ranked 29th at \$5,966.

This analysis, however, shows only a drop in Wisconsin’s average tax burden – some taxpayers here benefited less and others more. In the case of the recent \$1 billion income tax cut, for example, [Legislative Fiscal Bureau estimates](#) prepared at the time showed 98.9% of the total decrease was expected to go to tax

filers with state Adjusted Gross Income of more than \$40,000 and 74% of the total to filers with income of more than \$100,000.

TAXES AND OTHER REVENUE

As already noted, the cut in individual income taxes in Wisconsin was a significant factor in the divergence of the state and national tax burdens. As Figure 3 on the next page shows, individual income tax collections rose by 10.2% nationally but fell by 0.5% in Wisconsin.

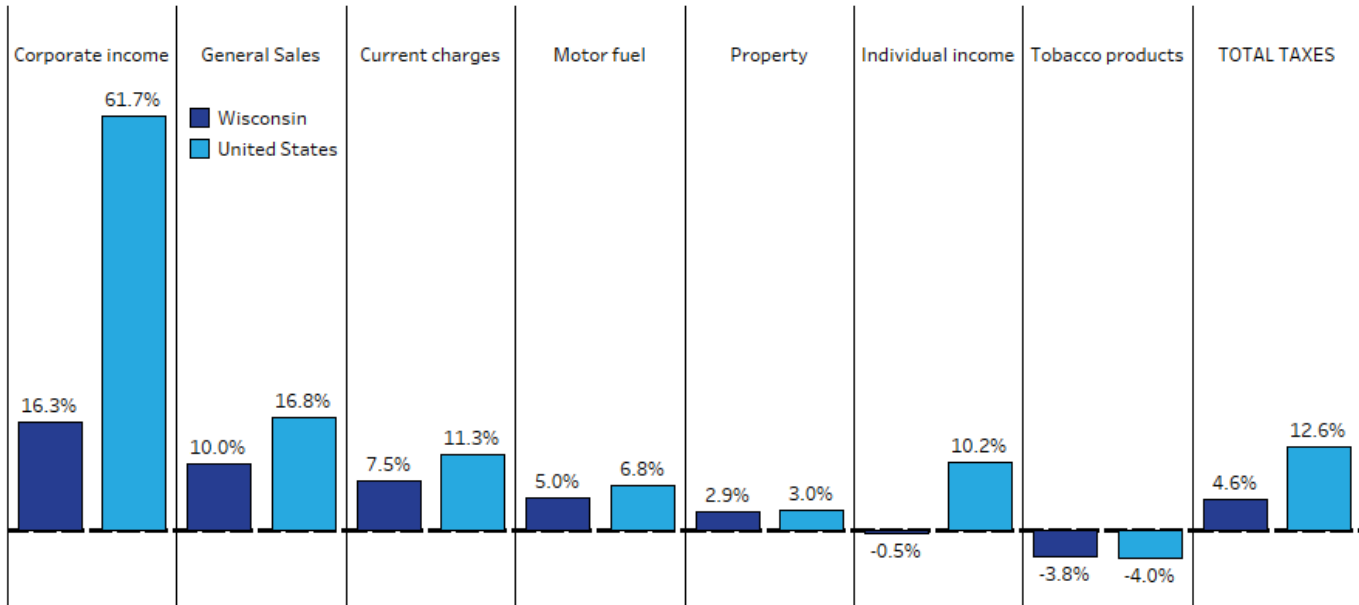
As a share of personal income, Wisconsin’s individual income tax ranked 13th-highest nationally in 2020 but by 2022 its ranking had fallen to 30th. This drop in the ranking may also reflect in part state [tax decreases approved in early 2021](#) for recipients of federal pandemic Paycheck Protection Program (PPP) loans. This trend may also reflect the fact that for 2022 the state adjusted its income tax withholding tables, which reduced on a one-time basis the tax funds being collected and held by the state for eventual refunds to taxpayers.

Last, Wisconsin’s standard tax deduction and the cutoff levels for income tax brackets are indexed to inflation. These adjustments protected taxpayers here from being pushed into brackets with higher rates by increases in wages that accompanied the rise in consumer prices. [Research by the Tax Foundation](#) suggests that about



Figure 3: Income Tax Cut Helped to Hold Growth in Wisconsin Tax Revenues Below the National Average

Percent change in combined state and local taxes by type from 2021 to 2022



Source: U.S. Census Bureau

half of the U.S. states with an income tax include some sort of inflation adjustment of their standard deduction, brackets, or other features, but the other half of states do not appear to do so. In those states, the recent rise in inflation could lead to higher effective tax rates unless the state either raised the standard deduction or exemptions or lowered the tax rate.

Individual income taxes are not the only difference, however. The growth in both corporate income and general sales tax revenues in Wisconsin significantly trailed the growth in those categories nationally, even though [no major cuts were made](#) to the Wisconsin sales tax. The overall economy as well as the mix of industries in Wisconsin may have slowed the growth in corporate tax collections, and the types of purchases covered by the state sales tax (which exempts motor fuel and medicines, for example) may have also affected sales tax collections here.

Property taxes – the other major levy in Wisconsin – grew by 2.9%, which was similar to the U.S. average. Property taxes as a share of income ranked 17th highest nationally, which was similar to recent years. Local property taxes in Wisconsin were tightly controlled in 2022 by the state budget, which froze the per pupil caps that limit school revenues from general state aid and the local tax levy. Those limits reduced the share of income in Wisconsin devoted to property taxes from

3.2% in 2021 to 3% in 2022, contributing a significant share of the overall decrease in the state’s tax burden.

The state’s higher than average property taxes – particularly on homes – remain the most salient tax for most state residents. That may keep some taxpayers from grasping the overall decrease in taxes that has taken place over the past two decades.

It is also worth noting that Wisconsin also receives much less than average from sales taxes, federal aid, and charges for public services such as sewer fees and tuition at public colleges and universities. Revenues from these sources as a share of personal income in Wisconsin in 2022 ranked 36th, 42nd, and 33rd respectively.

SPENDING

State and local spending in Wisconsin grew robustly in 2022 but still fell modestly as a share of personal income. Direct general expenditures totaled \$65.06 billion in Wisconsin in 2022, up 7.0% from the previous year. Spending as a share of income fell from 18.6% in 2021 to 18.3% in 2022 and the state’s rank fell slightly from 29th-highest to 30th.

As noted previously, the decrease in the state’s tax burden over the past quarter century has translated into a decrease in overall state and local spending levels and those for education in particular. Overall K-12



spending in Wisconsin rose 4.4% in 2022, but that was less than half of the 9.8% increase nationally.

The state's ranking for spending on K-12 schools totaled 3.8% of personal income in 2022, which was down from 3.9% in 2021 and 5.2% in 2000. The state's ranking in this category in 2022 was 31st, down from 24th-highest in 2021 and eighth-highest in 2000. This represents a major shift in the single largest area of state and local spending.

Higher education spending in the state rose to 1.9% in 2022 from 1.8% the year before. The state's ranking rose from 23rd highest to 20th in 2022.

In other notable changes, state and local corrections spending in Wisconsin grew by 11.3% in 2022. The state's ranking for corrections spending as a share of personal income rose from 12th-highest in 2021 to ninth-highest nationally in 2022. That is notable since nearly all corrections spending is paid for with state and local tax revenues – the federal government provides little funding in this area.

Police spending rose 5.8% in Wisconsin in 2022 compared to 3.8% nationally. As a result, the state's rankings for police spending rose somewhat, from 29th-highest in 2021 to 27th-highest in 2022. That ranking, however, was still down significantly from two decades ago. Meanwhile, spending on firefighters and fire protection fell both in terms of nominal spending and in the state's ranking, dropping as a share of income from 29th-highest in 2021 to 39th in 2022. That was tied for the lowest ranking on record.

Public welfare spending, such as Medicaid health coverage for low-income residents, grew by 6.5% in 2022, but the state's spending ranking in this area remained unchanged at 21st nationally.

THE COMING YEARS

From the Forum's own separate reports on state and local tax collections, we know that there was [little change](#) to the state and local tax burden in fiscal 2023 and that may flow into 2024 and 2025. Personal income growth has been relatively strong, but taxes have also grown in at least some areas.

First, Evers and lawmakers did not agree on large income tax cuts in the 2023-25 state budget. Next, a wave of successful [local property tax referenda](#) this year

will result in substantial increases on December 2024 tax bills. These increases should also help to counteract at least somewhat the drop in K-12 spending levels as local school leaders try to rebuild their budgets after the two recent years of frozen revenue limits.

For their part, many lawmakers want to keep lowering taxes in Wisconsin while Evers and many referendum voters have sought to boost K-12 spending. Resolving that tension will be one of the largest challenges ahead in the 2025-27 state budget.

