

WISCONSIN TAXES

in a National Context

As the calendar flips from March to April, taxes shift to front of mind for many, particularly with the looming April 15th income tax filing deadline. Amping the tax talk up this year are state budget discussions that include tax cut proposals from both the governor and legislative leaders. This month's Research Room explores how taxes in Wisconsin stack up to those in other states.

► A view from 20,000 feet

State and local (county, municipal, K-12 schools and technical college) government services are funded primarily with a combination of taxes, fees and intergovernmental revenues, such as federal aid. Generally, taxes are of most interest to policy analysts, but fees also garner attention.

When comparing tax burdens¹ from state to state, analysts typically use annual state and local tax data collected by the U.S. Census Bureau. Because states differ in size (population) and ability to pay (income), tax burdens are often measured on a per-capita basis or relative to the total income of state residents, referred to as state personal income. For this article, the focus is on taxes relative to income.²

The most recent figures from the Census Bureau show that in 2020, Wisconsin state and local taxes totaled \$31 billion, or 10% of state personal income. When compared to other states, Wisconsin ranked 18th highest on this measure.

To provide historical context, tax burdens and rankings were also calculated for each year back to 2000. Over the past two decades, Wisconsin has shown a general decline in

both its tax burden and its rank among the states.

In 2000, Wisconsin had the third highest taxes relative to income (12.5%). Only New York (13.6%) and Maine (13.1%) were higher. By 2010, Wisconsin had fallen to ninth with taxes claiming 11.5% of income. The 10% figure for 2020 shows that the general downward trend continued over the most recent decade.

Wisconsin was one of only three states that ranked in the top 10 in 2000 and dropped out of that group by 2020. The other two were Alaska (4th to 50th) and California (8th to 14th). Alaska relies largely on tax revenues from oil, which can fluctuate wildly from year to year.

► More taxes, fewer fees

Several factors could account for Wisconsin's above average tax burden. Typically, higher taxes are associated with more government spending. Yet in Wisconsin, state and local spending ranked in the bottom half of states in 2020 (29th).

Wisconsin's tax burden is not necessarily "high" due to more government spending, but rather by its choice to use taxes more and fees less to fund government services. When taxes and fees are combined, Wisconsin's rank relative to income falls to 31st, in line with its spending rank.

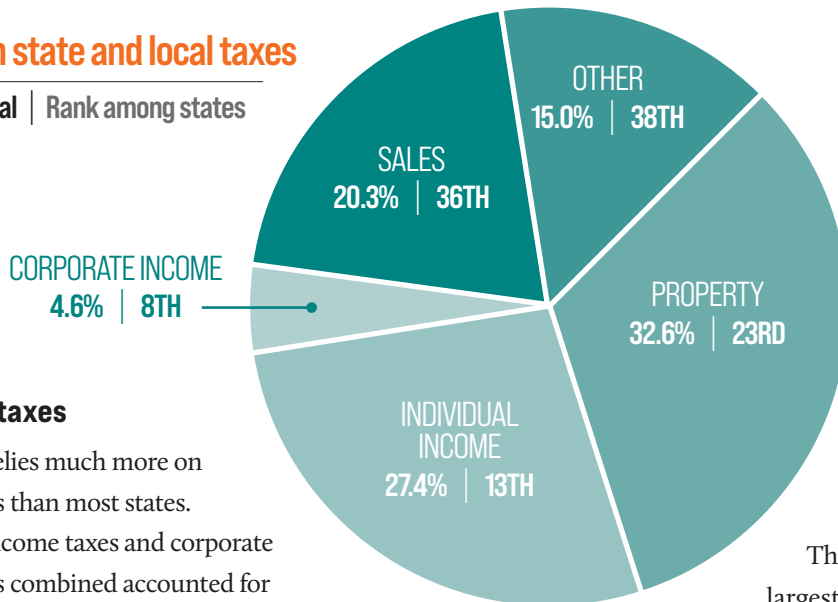
► Tax mix

While Wisconsin's use of taxes to fund government services is higher than in most states, the state also differs in the mix of taxes it uses. State and local tax revenue comes primarily from a combination of taxes on incomes, sales and property. However, states differ in how much they use each of them.



Wisconsin state and local taxes

Shares of total | Rank among states



Income taxes

Wisconsin relies much more on income taxes than most states. Individual income taxes and corporate income taxes combined accounted for 32.1% of all taxes levied, the 12th highest use rate in the country and above the national average of 26.1%. Among neighboring states, only Minnesota (33.7%) relied on these taxes more.

The corporate income tax generated only 4.6% of all taxes in Wisconsin in 2020. However, only seven states relied on that tax to a greater degree. Individual income taxes accounted for 27.4% of the total, the 13th highest use rate.

Sales taxes

Wisconsin relies less on sales taxes than most other states. Sales taxes accounted for 28.9% of all taxes in 2020. That percentage ranked Wisconsin 35th in the country and well below the national average of 33.5%.

When most residents think of sales taxes, they are thinking of the state's 5% general sales tax or the 0.5% optional county sales tax (imposed in 68 of 72 counties). This tax generates the bulk of sales tax revenues. According to the Tax Foundation, the state's general sales tax averages 5.43% and is the 8th lowest in the nation. Due to the relative low rate, general sales taxes accounted for 20% of all taxes, 15th lowest in the nation.

Wisconsin and other states also impose selective sales taxes on the purchase of specific products such as beer, alcohol, tobacco and gas. Wisconsin's use of these taxes is

also far below average, ranking 14th lowest nationally.

Property taxes

The property tax is Wisconsin's largest tax and, according to many surveys, the most hated tax. It accounted

for nearly a third (32.6%) of total tax collections in 2020. Wisconsin's use of the property tax was fairly typical, ranking 23rd among the states. Among neighboring states, Iowa, Illinois and Michigan all relied on the tax more than Wisconsin; Minnesota (27.3%) relied on it less.

A balanced approach

Some analysts have cited Wisconsin's relatively high use of income taxes in proposals to change how Wisconsin approaches its tax mix. And they may be right. There are some good arguments to use additional sales taxes to replace some of the income tax or to reduce local government reliance on property taxes.

That said, in 2020, Wisconsin had the second most balanced approach to taxation among the 50 states. Only Pennsylvania (29.6% property, 30.3% sales and 29.7% income taxes) had a more balanced tax system. ■

Forward Analytics is a Wisconsin-based research organization that provides state and local policymakers with nonpartisan analysis of issues affecting the state.

1. Burden should not be interpreted in its common meaning. For policy analysts, tax burden is simply shorthand for the measure being compared, in this case per capita taxes or taxes relative to income.
2. State personal income as reported by the U.S. Bureau of Economic Analysis is used. Per capita rankings follow the same trend, but generally show Wisconsin ranking slightly lower than its rank relative to income.