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Wisconsin's tax burden gets lighter but not for all



Gary Porter

Jason Dixon of Milwaukee registers his automobile at the Division of Motor Vehicles on W. Mill Road. Wisconsin's registration fee is \$75 – and \$95 in Milwaukee. Minnesota bases its fee on the vehicle's price, which can push up the cost of operating a vehicle.

By [Dave Umhoefer](#) of the Journal Sentinel

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At the end of last year, one Midwestern state emerged carrying its lightest total tax burden since the early 1960s.

Only six states nationwide saw a bigger drop in the percentage of taxpayer income taken for government spending over an eight-year period.

Once labeled a [top 5 tax hell](#), the state's spending level dipped below the national median after years of restraints on schools and local governments under its past three governors.

The state is Wisconsin.

If that surprises you, welcome to the bewildering world of tax-and-spend politics. It's a twilight zone where facts often are obscured by ideological battles and special-interest agendas.

Fact: Wisconsin ranks 26th in total spending by all levels of state and local government based on the latest figures (as compared with 20th in population, 24th in Gross Domestic Product and 24th in personal income for the same year).

Fact: Wisconsin ranks 14th in total tax burden.

Why the gap between spending and tax rankings?

Wisconsin relies less than many states on user fees, including things such as tollways, school activity fees and garbage collection charges. It leans much more than most states on property and income taxes.

And it lags in the amount of federal money it receives. That's a lost opportunity to offset state and local taxes.

If the state's tax burden feels much worse to you - like a wind chill in winter - then you're probably middle-class.

Few states hammer the middle class as hard as Wisconsin - especially households earning less than \$88,000 a year, a Journal Sentinel examination found.

Despite a chorus of complaints, relief has proved spotty at best, raising questions about the political system's ability to take on the issue.

And other big questions loom about Wisconsin's unique tax structure.

The state budget has been balanced during this recession - and long before - using accounting gimmicks and borrowed funds that will eventually come due.

Personal income has not been growing as fast in Wisconsin as in other parts of the country.

Some critics say the state's tax structure is outdated and doesn't encourage income growth or help [keep Wisconsin economically competitive](#). [Others say](#) it is inadequate in the long run to fund basic needs, such as education.

Here's what the Journal Sentinel examination found:

- Only a few states rely more than Wisconsin on the big one-two punch of property and personal income taxes. Despite the average government spending, that's an unpopular load for taxpayers and a risky strategy for funding bedrock services.
- The state's unusual insistence on taxing all types of property at equal rates puts a larger share of the tax burden on middle-class homeowners. The result: Taxes on industrial property owners rank in the bottom half and sometimes the bottom third nationally. In contrast, residential taxes are still easily top 10, and residential owners pay more than two-thirds of all property tax collections, up from half in 1970.

• While the state's business climate rankings are low, taxes on business do not appear to be the major factor. By several measures, business taxes in Wisconsin are middle of the pack or better.

• Our mix - graduated income tax rates, relatively low sales taxes, no sales tax on food, high property taxes - hits different groups in vastly different ways. It means higher tax burdens for the rich than in all but a few states. It keeps tax burdens relatively low for those at the very bottom. But once workers reach \$30,000 a year, their total tax burden jumps faster than in any other state.

■ The way the state collects taxes doesn't appear to be boosting its ability to lure growing industries. Wisconsin trailed 45 states in income growth from 2003 to 2008, mirroring other industrial states.

Lessons for Wisconsin

From the top to bottom of the tax-and-spend rankings, lessons and cautionary tales abound for Wisconsin.

The states that jump out, of course, grab attention by forgoing one major tax or holding their overall tax burden down.

They are the darling of the tax rankings. But those lists don't tell the full story.

In Iowa, [a recent economic surge](#) has turned heads. Unlike Wisconsin, the state has weathered the recession without raising rates on major taxes and has a big reserve fund.

"We've had major tax reductions through the last decade," said Mike Lipsman of Iowa Revenue Department.

The state's tax ranking (29) is well under Wisconsin's (14) and below average nationally. But Iowa spends a considerably larger share of personal income to run government than Wisconsin does.

Iowa, it turns out, is a national leader in user fees, including school busing charges, parking fees, non-tuition expenses in higher education and school lunches.

Its combined ranking on taxes plus fees is 14th. Wisconsin is lower at 19th.

Iowa, though, trumps Wisconsin on the image front because national studies don't identify any of its taxes as notably high.

Wisconsin's property tax, by contrast, gets attention.

A [Tax Foundation study](#) last year identified Milwaukee County as 22nd highest on property taxes as a percentage of a median home's value, out of 775 counties nationwide.

"Among the Nation's Highest," is the blunt headline on the foundation's Web site.

Meanwhile, Iowa's healthy income growth knocks down its tax burden rank, which eases as income grows. And the state's budget, therefore, is beefier with lower tax rates. Wisconsin used to significantly out-earn Iowa. Now they're nearly even. Per-capita income measured annually since 1998 jumped from \$24,898 a person to \$37,402 in Iowa, while going from \$26,619 to \$37,767 in Wisconsin.

Iowa has successfully developed bio-fuel and wind-energy sectors and does a better job than Wisconsin getting federal funds, receiving \$240 more per person from Uncle Sam. When it comes to receiving federal dollars, Wisconsin ranks in the bottom six on that measure.

Middle-class burden

Viewed nationally, Wisconsin's approach puts a remarkable tax burden on the broad middle class.

Considering only the two big taxes, a two-parent family of three earning \$75,000 a year and living in a median-priced home in Milwaukee would pay about \$7,500 in local property and state income taxes. That compares with \$5,300 in Chicago, \$4,600 in Minneapolis and \$5,000 in Des Moines, according to a Journal Sentinel analysis of figures from national studies.

The one-two punch of the two taxes explains middle-class frustration even in the face of falling tax rankings.

"The big two are noticeable and they are memorable, and both are almost 25% higher than the national average," said [Todd Berry](#), president of the [Wisconsin Taxpayers Alliance](#). "That's what the middle class sees."

Only New York asks its unretired middle-class wage earners to pay a bigger share of government spending, based on a [recent study](#) of sales, property and income taxes by the Washington, D.C.-based Institute on Taxation and Economic Policy. Wisconsin's No. 2 ranking considered household incomes between \$57,000 and \$88,000 as middle class.

A [separate study](#) of 50 big cities ranked taxes in Milwaukee seventh highest for a hypothetical family of three earning \$50,000, according to a widely cited review of auto, sales, property and income taxes by the [government of the District of Columbia](#).

Both studies put the tax burden in Milwaukee and Wisconsin at more than 10% of income for those earners.

The middle-class burden has eased a bit in recent years for some, reflecting limits on school and municipal spending and other factors. In the 1990s, Wisconsin's total tax burden was routinely 15% above the national average.

Now it's 4% above, having dropped steadily since 2000. The state is below average by another common measure - taxes per person.

In recent years, retirees Fred and Dorris Gebauer's property taxes have dropped 3% in New Berlin, a suburb of Milwaukee with a solid tax base and low tax rates.

The retired welder and his wife built a house and put two kids through what they considered good public schools. But the kids are long out of the house, and to Fred, it no longer makes sense that people in his position pay full school taxes.

"When you retire, they should have a break automatically for people on fixed incomes," Gebauer says of property taxes. "They should shift it away from homeowners onto somebody else."

There's another caveat when considering the tax burden: Tax rankings lag real time by two years, so the impact of recent revenue increases is unknown. Wisconsin, like many other states, raised several taxes last year as the recession sharply cut collections, causing a big 2009-'11 budget shortfall. But Wisconsin's was among the largest increases nationally, [one recent study](#) showed.

Democrats in power targeted top income earners, payers of capital gains tax, multistate corporations and smokers in [a big tax package](#) over two years. The top income tax rate went up for the first time since 1972.

Gov. Jim Doyle noted that the elimination of state taxes on Social Security benefits, and new deductions for tuition and health premiums, will offset some of it. He said services remained intact while the tax ranking dropped.

"We've made cuts, but we've done this in a way that our schools are sound," Doyle said of school spending limits that helped lower the tax rank.

Washington comparison

Among the states, Washington often is compared with Wisconsin because of size and affinity for the outdoors.

Voters and [courts there](#) have warded off use of an income tax, holding down the state's tax burden.

The missing tax is not a major factor in luring residents, but it can help when big companies are cajoling executives to accept positions in the state, said Joe Spencer, president of Seattle's John L. Scott Real Estate.

"People moving from California to Washington are surprised at how expensive our real estate is," Spencer said. "But when they find out there's no income tax, they get over it real quick."

Instead, the sales tax is king in Washington, raising \$60 of every \$100 in taxes - the same share Wisconsin gets from property and personal income taxes.

"Our state is really regressive on lower income folks," said Tremaine Smith, deputy director of the Washington Department of Revenue.

A Seattle home health worker, for example, might shell out five times more of her income in taxes than the share paid by the city's top earners, based on the study by the Institute on Taxation and Economic Policy, the research arm of the liberal Citizens for Tax Justice.

Washington's statewide sales tax, 6.5%, is higher than Wisconsin's 5%, but the real gap is even bigger. Local sales taxes in Washington for zoos, transit and health programs drive total rates much higher: near 10% in Seattle, compared with 5.6% in Milwaukee.

The sales-tax reliance can backfire in hard times.

Six months after closing a huge budget hole, a [new revenue gap](#) popped up, and Washington state lawmakers are talking about new sales and beverage taxes.

Wisconsin has avoided the need to reopen its budget.

Unsettled debate

Does Wisconsin's tax structure drive people or [business](#) away, [hampering growth](#)?

Politicians will argue over that until the cows come home, and [researchers will, too](#).

No one state has a model tax system that experts say best collects revenue for services and retains competitiveness in a global 21st-century economy. There is an unsettled debate on whether tax burdens play a major role in personal and professional decisions.

But most agree they play into a state's business climate and quality of life.

Wisconsin's tax system, for instance, has grown very complex - a tangle of deductions and credits and exemptions that business officials complain about as much or more than tax rates.

"It allows some government bureaucrat in Madison to determine the winners and losers," said James Buchen,

chief lobbyist for Wisconsin Manufacturers & Commerce.

[Gary Burtless](#), an economist at [Brookings Institution](#), said studies have shown some effect on migration when state tax rates differ widely or a bordering state lacks a certain tax.

It's real, he said, but policy-makers sometimes overreact. Brookings is generally viewed as a centrist to liberal think tank.

In Wisconsin and at the federal level, top income tax rates have come way down in recent decades. But some economists say they can skew behavior.

At some higher rates, "people will substitute leisure for labor," said [Kail Padgitt](#), a staff economist for the [Tax Foundation](#), a conservative Washington, D.C., think tank that supports a flat income tax.

Others say people also might be inclined to work more to keep a standard of living as taxes rise.

People, Burtless said, should consider total taxes, not just one that jumps out.

Washington state, for example, has no corporate income tax on profits. But it substitutes a "gross receipts" tax that state officials bluntly say taxes deeper and hurts start-up businesses.

"It doesn't matter whether you're even making a dime," said Smith, the revenue official. "Isn't that weird?"

Still, Washington state, home to Microsoft, Amazon, Starbucks and a vibrant entrepreneurial sector, gets high marks in national studies for readiness to add jobs of the future.

Wisconsin's business climate generally gets subpar grades overall in national studies. But business taxes represent just 39% of all state and local taxes here, 12th-lowest in the country, according to a [2008 study](#) prepared for the [Council On State Taxation](#), a group of big corporations.

Local ways prevail

Across the country, local politics and customs prevail.

Oregon, Washington's neighbor, leaves it to voters to decide in referendums whether taxes live or die. Wisconsin has resisted that approach.

"A sales tax has been on the ballot here nine times and has been defeated nine times," said Chris Allanach, an Oregon government economist.

[Voters there in January](#) bailed out the state budget by approving an 11% income tax rate on the wealthy. No state has a higher rate.

To Wisconsin's south, the eye-catching fact is Illinois' lowest-in-the-country flat tax on paychecks - at 3%, it's less than half of Wisconsin's top rate.

The state is a bottom 10 spender. That includes low ranks on higher education and cash welfare benefits, in sharp contrast to Wisconsin. The 3% tax is in doubt now, though, as Illinois scrambles to close a \$13 billion budget deficit. One plan would push it to 4.5%.

Illinois is a tough tax state for the underdog. In addition to its regressive flat tax, the property tax hit outside of Chicago tops even Wisconsin's. Beyond that, the state slaps a sales tax on groceries.

In Wisconsin, even with its spirited tax fights and rising anger over government spending, there is little debate over whether the burden should be less for low earners.

"Wisconsin puts a high value on fairness," said [George Lightbourn](#), a leading Wisconsin conservative who twice ran state government's top fiscal agency. "We are kind of that way."

One of the many beneficiaries is Jim Wahl, a 74-year-old Milwaukee retiree.

He lives with his wife, Beverly, on little more than Social Security in the distressed Westlawn public-housing project. Wahl helps people fill out tax forms and file for Wisconsin's [homestead credit](#), which lightens the property tax or rent load at incomes less than \$24,680. Last year, Wahl had no income tax liability, so he got about \$300 as a direct homestead refund. He paid his car insurance and registration.

"I was worried we might lose it," Wahl said. "But it's mainly for seniors, and seniors are the ones who vote."

In Wisconsin, households in Wahl's bracket pay about 9% of income in taxes, including sales and other taxes, studies suggest. That's in the bottom third or even bottom 10 nationally.

But when you get to \$30,000, those households already are paying more than 10% - in or near the top 10 nationally.

Wisconsin's challenge

Wisconsin ultimately will have to decide how low to go on tax and spending.

The first challenge will be to get the facts in front of residents who have seen little relief even as spending increases have moderated.

"The overall moderate cost of government in Wisconsin appears to the middle class as a myth because they're the ones carrying the burden," said [Jack Norman](#), research director at the [Institute for Wisconsin's Future](#), a liberal think tank.

Lightbourn, president of the conservative [Wisconsin Policy Research Institute](#), sees the recession as a chance to further drop the state's tax ranking in hopes of attracting jobs and residents.

State Rep. [Robin Vos](#) (R-Caledonia), member of the Legislature's Joint Finance Committee, endorses a bottom 10 tax ranking and spending freezes on programs for the less fortunate.

Others disagree.

"Aiming for the bottom 10 in taxes would put Wisconsin on a path to become a cold weather version of Alabama," said Jon Peacock of the [Wisconsin Council on Children and Families](#). "That's not the way to improve our economic competitiveness or to maintain the high quality of life that Wisconsinites expect."

MYTH VS. REALITY:

Everybody who's paid a tax bill or filled out an income tax form seems to be an expert on taxes. But time has eroded some of the conventional wisdom on Wisconsin taxation and spending. Not everything is as it appears:

Conventional wisdom: Wisconsin is a big-government state.

Reality: It's true that our government has a lot of layers, but its per-capita spending of \$7,204 on state and local government is slightly below the national average (\$7,516). In 2000, it was 7% higher than average.

Conventional wisdom: Wisconsin is a tax hell.

Reality: Limbo is more accurate. In recent years, Wisconsin has dropped from the top five in total tax burden to 14th among the states, based on the latest rankings through 2007. But last year's tax increases could affect future rankings.

Conventional wisdom: The overall tax burden in Wisconsin keeps going up.

Reality: As a percentage of Wisconsin income, total tax collections in 2009 took the smallest bite since the early 1960s – 11.2% of income. The recession played into that as sales and income taxes nosedived. Year to year over the last decade, that burden increased just twice.

Conventional wisdom: Wisconsin is a big-government state.

Reality: It's true our state has lots of layers of government, but our per-capita spending of \$7,204 on state and local government is now slightly below the national average (\$7,516).

Conventional wisdom: Corporate income tax is a big source of funds for state coffers.

Reality: Not any more. Wisconsin's corporate tax burden is middle of the pack, and many businesses now pay their taxes through the personal income tax system rather than the corporate structure.

BEHIND THE NUMBERS

Rankings past and future

Wisconsin's tax burden ranking under **Gov. Jim Doyle** fell from No. 5 among the states to the current No. 14 since his tenure began in 2003. It hovered between No. 3 and No. 8 under **Gov. Tommy Thompson** from 1987 to 2001, and it was at No. 5 during **Gov. Scott McCallum's** brief tenure in between Thompson and Doyle.

All three get some credit for the decline, through a combination of tax cuts and school and municipal spending restraints they enacted or retained. Wisconsin didn't raise tax rates for more than a decade. That ended in 2009 amid the recession, but the impact on the rankings won't be known until next year.

Dark clouds hover, too: State and national observers criticize Wisconsin for using borrowing and other one-time revenue gimmicks to artificially balance its budget over the same period.

Property tax relief: Hit and miss

A slowdown in spending increases helps explain why property tax bills declined for some homeowners in the past decade.

- One of every eight homeowners' bills was lower in 2005 than in 2000, according to a new study of 700,000 Wisconsin homeowners who didn't move during the period. They spanned all income levels.
- On the other end of the scale, about one in five saw average increases topping 6% a year. The average annual increase was 3.3%, the study showed.

What's up with bills going down?

It's case by case, but revenue limits have forced some school districts to scale back. Also, some fast-growing areas are able to hold down taxes, said Wisconsin Revenue Department official Rebecca Boldt and UW-Madison economics professor Andrew Reschovsky. They authored the study by the Lincoln Institute of Land Policy, a Massachusetts-based research organization.

A lot of the beneficiaries were owners of second homes, cottages, vacant land and out-of-staters who have property in Wisconsin.

Federal funds shortage hurts revenue base

Wisconsin has long ranked low when it comes to getting federal funds for state and local government, including 42nd in 2006. The state also gets one of the lowest returns on federal taxes paid in by its residents.

Its Midwestern neighbors share the low rankings, with the exception of Iowa, which is in the middle of the pack among the 50 states.

Wisconsin officials and observers offer a variety of explanations, including:

- The relative lack of federal research facilities, military installations and federal offices.
- Aid formulas that favor poorer, less healthy states that don't spend as much.
- A political culture that has rewarded elected officials who disdain "pork" projects, or earmarks, and looks skeptically on strings attached to federal aid programs.

State and federal elected officials say Wisconsin won a notable victory on federal funds this year getting high-speed rail funding. But they say the hurdles are high to moving way up in rankings on getting federal money.

Sources: Journal Sentinel analysis of U.S. census data, Wisconsin Taxpayers Alliance reports

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Is Wisconsin still a tax hell? Yes, especially in Milwaukee.

They can twist this any way that they want, but we pay a lot of taxes and have poor service. Bridges crumbling, 4th graders who can't read and when they want to fix an alley by my house they charge me an extra 600 bucks. Just because more states are becoming a tax hell does not mean we are not a tax hell. It just means the whole country is now a tax hell.