

RESEARCH BULLETS

Issue #7

May 2004

Individual Levels of Taxation in Wisconsin

State tax burdens can be measured and reported in a multitude of ways. Some studies examine just state revenues, for example, while others include local or federal taxes. Once specific taxes are identified they can be measured differently, such as a percent of total personal income, or as a percent of per capita income.

Another consideration is the degree to which the burden is shared by all taxpayers. It is therefore important to know what any specific study or media report is actually analyzing when viewing its findings.

Individual Taxes

Wisconsin has a high ranking on certain measures of individual taxation—but not on every measure. When state fees and federal taxes are included, for example, Wisconsin has a lower total tax burden than is generally believed.

Consider the following:

- As a share of personal income, Wisconsin's state and local tax burden is the 4th highest in the country—about 12.5% above the national average (Institute for Taxation and Economic Policy-ITEP).
- When fees are included, Wisconsin drops to 12th nationally on this measure (ITEP).
- On a per capita basis, Wisconsin ranks 11th in state and local taxes paid (Census Bureau).

- The Wisconsin Legislative Fiscal Bureau ranks the state 17th in per capita taxes when fees are included along with federal, local, and state revenues.
- Measured per \$1,000 of personal income, Wisconsin's rank drops to 19th, or 0.3% below the national average, on this total tax measure (Fiscal Bureau).
- Wisconsin ranks 33rd in fee collection and 32nd on the sales tax measured as a percent of total personal income (ITEP).

Wisconsin's Taxes Are Regressive

The distribution of taxes—or how much the state's tax burden is shared by different income earners—is another issue that can affect perceptions about taxation. In Wisconsin, those making the most pay the least as a percent of income while middle income earners pay the highest share of income to the state in taxes.

One reason for this disparity is the state's treatment of capital gains. Wisconsin is the only state that allows a 60 percent exclusion of capital gains from investment—a policy that resulted in a \$400 million loss in state revenue in 2000. If the state increased this low level of capital gains taxation, which benefits those with the most to invest, it could increase equity among taxpayers as well as provide new income for public services like education.

Distribution of Taxes in Wisconsin	
Who Pays	% of Income Paid to Wisconsin
Wealthiest one percent	5.9%
Wealthiest five percent	8.1%
Upper-middle (\$48K - \$70K)	10.6%
Middle income (\$18K - \$48K)	11.5%

Source: Institute on Taxation and Economic Policy

Also, low and middle income earners experienced an increase in the percent of income going to taxes last decade while high income earners saw a decline. The chart below, which depicts this trend, includes sales tax changes in cigarettes and gasoline, which affect low income more than high income individuals.

Distribution of Taxes in Wisconsin	
Who Pays	Change in Taxes as Share of Income 1989-2002
Wealthiest one percent	0.7% decrease
Wealthiest five percent	0.5% decrease
Upper-middle (\$48K - \$70K)	(no change)
Middle income (\$18K - \$48K)	2.1% increase
Below \$18K	2.6% increase

Source: Institute on Taxation and Economic Policy

Conclusion

It is often claimed that Wisconsin has one of the highest tax burdens in the nation. On one measure—taxes as a percent of total personal income—this is true. However, on a per capita basis (average income per person), Wisconsin’s tax rank drops to 11th nationally. When all taxes—including state fees and federal taxes—are included, the state’s overall rank drops even further to 17th nationally—a *much lower ranking than is generally cited*.

The state’s tax burden is disproportionately shared by low and middle income earners. Wealthy individuals pay a smaller share of their income to state taxes, and recent trends show them paying less while low and middle income earners are paying more of their income to taxes.

