

STATE AND LOCAL TAX BURDEN FALLS TO NEW LOW AFTER \$1 BILLION CUT

Driven down by a \$1 billion income tax cut and tight limits on property taxes, Wisconsin's state and local tax burden fell in 2022 to its lowest level on record. Local taxes as a share of income have never been lower in more than a half century of data, and state and federal taxes on families and businesses are also near historic lows.

With a historic state income tax cut now in effect, the combined state and local taxes paid by Wisconsin residents and businesses in 2022 fell as a share of income in the state to the lowest level on record. The combined effect of a massive cut in state income taxes and continued tight controls on local property taxes produced much slower growth in overall state and local tax collections in Wisconsin last year than the increase in residents' incomes.

In fiscal year 2022 (the 12 months ended on June 30), state and local tax revenues fell as a share of personal income in the state to just under 10.1%, down from 10.3% in 2021 (see Figure 1). That was the lowest level

in Wisconsin Policy Forum records going back to 1970. State taxes as a share of income also fell, though they remain just slightly above a record low. For their part, federal taxes on Wisconsin residents and businesses have risen somewhat as a share of income but also remain near their historic low.

For more than a half century, the Forum and its predecessor, the Wisconsin Taxpayers Alliance, have compiled figures on every local, state, and federal tax paid within the state – from state taxes on bingo games to local taxes on hotel stays. We then compare tax collections to the total income of state residents, which in turn illustrates the overall impact of these taxes on families and businesses in the state.

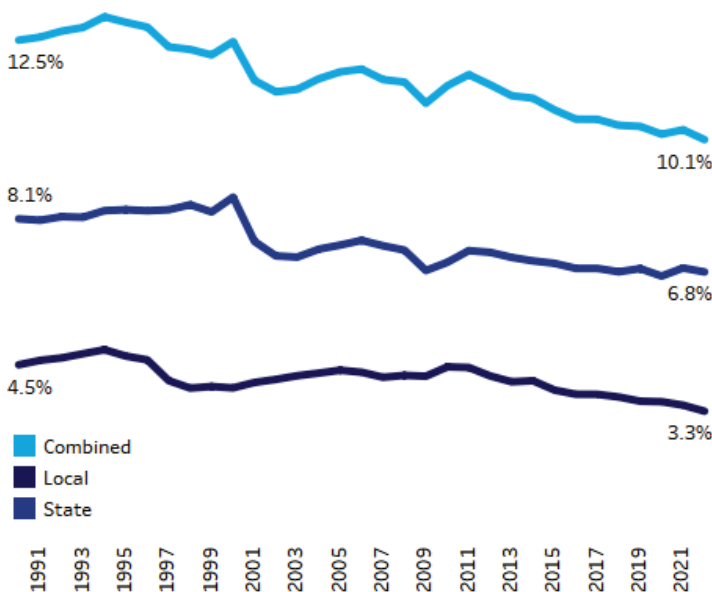
One major cause of the drop in 2022 – though far from the only one – is the \$1 billion a year cut in state income taxes approved as part of the 2021-23 budget. Another is the state's policy of limiting most property tax increases by local governments in the state – from towns and cities to school districts.

Also critical, however, was the strong 6.7% growth in personal income in Wisconsin in calendar year 2021 (the most recent year available). The figures on personal income include wages and salaries, interest and dividend income, and transfer receipts to individuals from the government. Collectively, these various sources represent the available income that state residents can use to pay the taxes they owe.

This drop in the state and local tax burden does not mean, however, that tax liabilities have dropped to the same degree for all Wisconsin residents. As the Forum [has recently noted](#), certain levies such as property taxes

Figure 1: Wisconsin Tax Burden Hits New Low

State, local, and state-local combined taxes as a % of Wisconsin income



Sources: State of Wisconsin agencies; Wisconsin Policy Forum research



remain relatively high for lower and middle-class families. Also, since 2008, the average income tax rates [have grown less favorable](#) for taxpayers at the bottom end of the income scale and more favorable for those in the middle and top. Though the figures presented here provide a comprehensive look at the overall statewide picture, they leave out many nuances.

WISCONSIN'S TOTAL TAXES FOR 2021

Total state and local tax collections in Wisconsin rose to \$35.36 billion in fiscal year 2022, up 4.1% from \$33.97 billion the previous year. Since that was markedly lower than the growth in personal income, the overall tax burden fell. The interactive chart (Figure 2) allows readers to explore figures on individual taxes, which are also discussed below.

State and local taxes as a share of income have fallen substantially in Wisconsin over time, both compared to the state's past and compared to other states. As the Forum [noted in a recent brief](#), 2020 U.S. Census Bureau figures (the most recent available) show Wisconsin's state and local tax burden has been below the national average for three years in a row, ranking 18th-highest nationally. This report provides a more up-to-date picture on the tax burden, although we can do so only for Wisconsin.

STATE TAXES

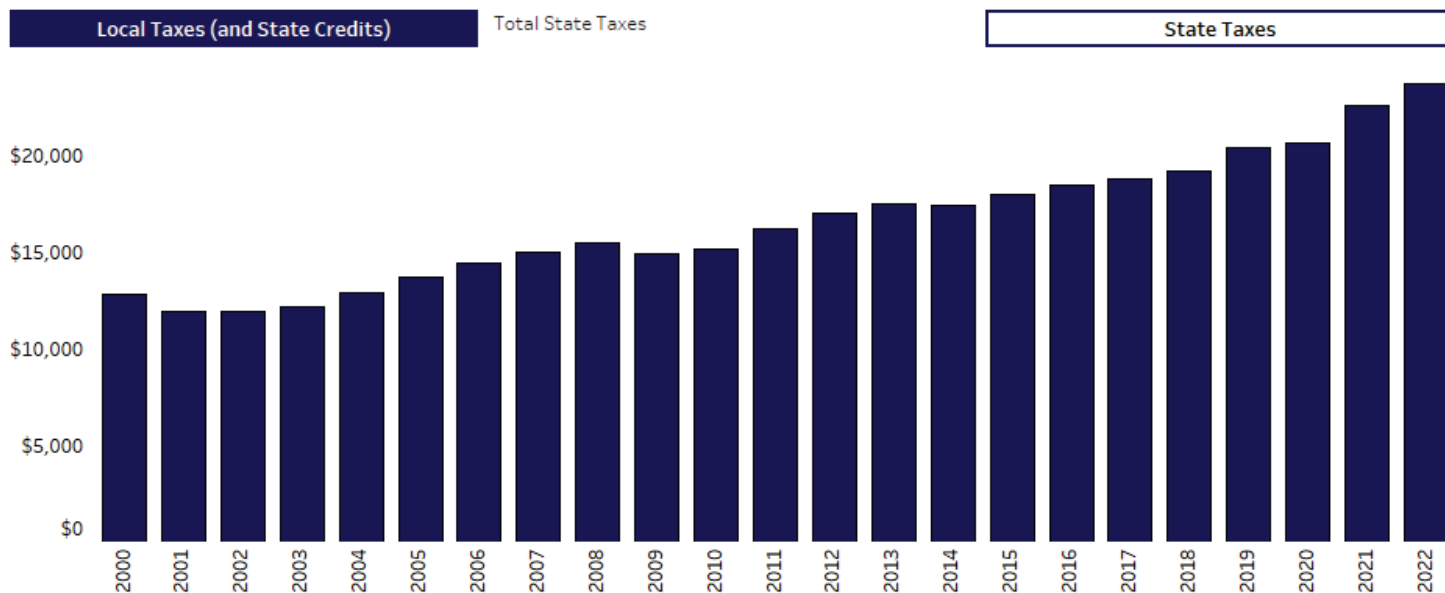
State tax collections grew 5.1% in 2022 to \$23.78 billion, up from of \$22.61 billion the previous year. Though much less than the 9.2% rise in 2021, the increase was still the third-largest of the past decade. It reflected a variety of factors, including the ongoing recovery from the COVID-19 pandemic, the positive impacts on incomes of lingering federal stimulus funds, the impact of inflation in increasing certain revenues such as sales taxes, and other federal and state actions, court decisions, and policies.

In fiscal year 2022, [Wisconsin reported](#) a 5.0% rise in general fund revenues such as individual and corporate income taxes, sales taxes, and excise taxes. That increase was less than half of the estimated median for all states of 10.3%, according to a recent [report by the National Association of State Budget Officers](#) (NASBO).

Revenues are not easily comparable across states, however. Some states, for example, do not impose certain taxes that are levied in Wisconsin such as income taxes, while other states have revenues that Wisconsin does not, such as significant oil taxes. With that said, Wisconsin's general fund revenue growth would have nearly matched the national median if not for its large income tax cut.

Figure 2: Explore State and Local Tax Revenues Over Time

State or local tax revenue by type and year in millions (raw dollars)



Sources: Compiled by the Wisconsin Policy Forum using published and unpublished information from the state Departments of Revenue, Administration, Workforce Development, Natural Resources, and Transportation.



Individual Income Tax

Revenue from the individual income tax – the largest state tax – fell by a slight 0.7% in 2022 as Wisconsin’s economy grew rapidly but the state enacted a historic tax cut. That was only the third drop in income tax collections since 2010. Revenues from the individual income tax dropped from \$9.28 billion in 2021 to \$9.21 billion in 2022 (see Figure 3).

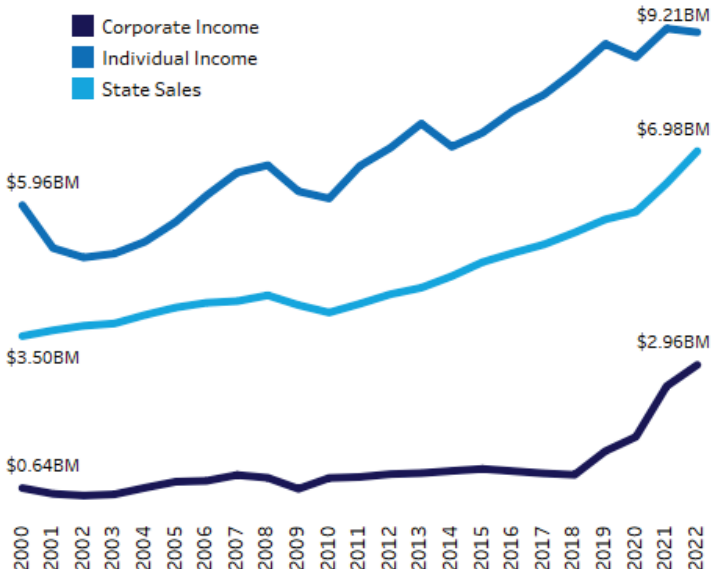
As part of the 2021-23 budget, lawmakers and Gov. Tony Evers lowered the marginal rate for the state’s [third income tax bracket](#) from 6.27% to 5.30%. In July 2021, the [Legislative Fiscal Bureau estimated](#) the impact of the cut at approximately \$1 billion in each year of the two-year state budget.

The nearly one-percentage-point reduction is the largest single-year drop in a bracket’s rate since the late 1980s and has a huge impact, as the third bracket applies to a wide range of income for state taxpayers. On spring 2023 tax returns, it will mean a 15.5% decrease in the rate applied to the taxable income falling between \$25,520 and \$280,950 for individuals and the income between \$34,030 and \$374,600 for married couples filing jointly.

The budget contained a number of other changes to income and sales taxes, including a provision to stop taxing the income that members of the U.S. Armed

Figure 3: State Revenue Growth Remains Strong Despite Pandemic and Income Tax Cut

Collections from the largest three state taxes in billions (raw \$)



Source: Department of Administration

Forces receive for serving on active duty – an estimated \$20.2 million annual cut to tax revenues. Most of the other changes had a modest to minimal impact on tax collections.

Sales and Corporate Income Taxes

The second largest source of state revenue comes from sales and use taxes. In 2022, sales tax collections grew 9.5% to \$6.98 billion, up from \$6.37 billion in 2021. That was the largest year-over-year increase since the early 1980s – a period of both high inflation and the Legislature’s increase of the sales tax rate from 4% to the current 5%. The rise in sales tax revenues here modestly trailed the median state nationally, which according to NASBO had an estimated increase of 10.1%.

The increase here and nationally resulted in large part from rapid inflation, which meant that consumer spending increased on taxable goods and services such as restaurants and clothing, raising sales tax collections in turn. In addition, consumer spending and sales tax revenues were boosted by the strong economy and federal stimulus as well as the receding impact of the pandemic.

Corporate franchise and income tax revenues – the next largest source of state tax collections – rose by 15.6% in 2022 to \$2.96 billion, leaving them more than three times larger than they were as recently as 2018. (For more on this trend, see our [2019 brief](#) and an [additional report from 2020](#).) The increase in 2022, however, was somewhat less here than the median state nationally, where corporate collections are estimated by NASBO to rise 19%.

Excise Taxes

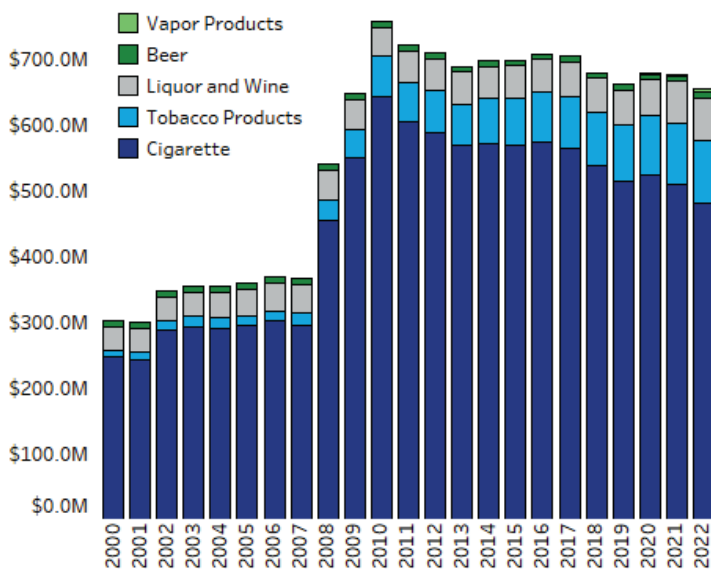
Excise tax revenues going to the state’s general fund fell in 2022 for the second straight year in Wisconsin, largely driven by a drop in cigarette tax collections.

Tax revenues from cigarettes – a larger source of funds in Wisconsin than most states nationally – declined in 2022 by 5.4% to \$482.4 million as fewer smokers in the state are lighting up (see Figure 4 on page 4). Tax revenue from the sale of other tobacco products such as chewing tobacco and loose-leaf tobacco grew by 1.8% to \$94.4 million.



Figure 4: Cigarette Tax Revenues Falling Since Rate Hikes During Great Recession, Other Tobacco Taxes Growing

State general fund excise tax revenues in millions (raw \$)



Source: Department of Administration

In 2020, the state enacted a new tax on vaping products at a rate of five cents per milliliter of liquid or other substance. Total vaping tax revenues rose nearly 165% to \$4.1 million in 2022, up from the \$1.6 million in 2021.

After rising [sharply during the pandemic](#), tax collections from liquor and wine sales remained elevated in 2022, climbing slightly. Beer tax collections fell by 3.5%.

Gas Taxes and Transportation Revenues

Gas tax collections reversed their pandemic decline in 2021, rising by 15.8% in 2022 as COVID-19 receded in the public mind and spurred more travel and commuting to work. Total revenues from motor fuel taxes increased from \$959.4 million in 2021 to \$1.11 billion in 2022. However, they remain well below inflation-adjusted levels, as Figure 5 shows.

Other transportation revenues include driver’s license, vehicle registration, and limo and car rental fees. In contrast with other state taxes discussed previously that go into the state’s general fund, transportation revenues go into a segregated fund and are only used for transportation spending.

Vehicle registration fee revenue increased by 1.6% to \$924.9 million while driver’s license revenues fell by 4.1% to \$39.0 million. One key question in future state

budgets is whether lawmakers will increase gas tax or vehicle registration fees to ensure long-term funding for infrastructure or whether the state instead might draw on its [general fund surplus](#) to fund these priorities, a tactic used in the current budget. The benefits Wisconsin will receive from the federal Infrastructure Investment and Jobs Act approved in the fall of 2021 also may impact that decision.

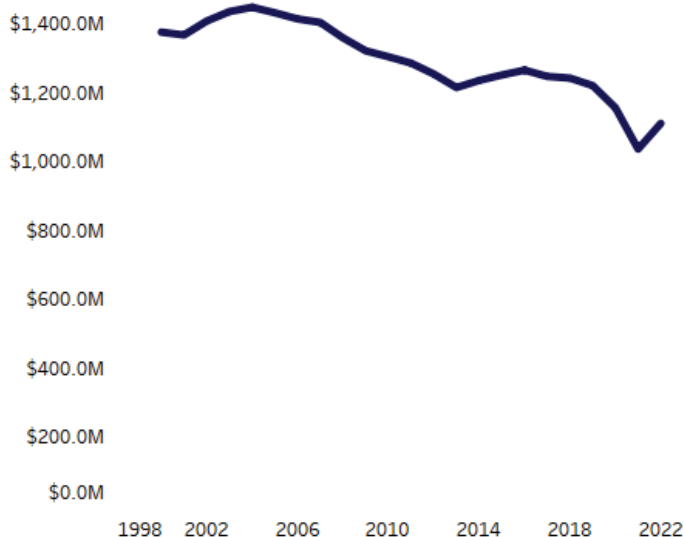
Unemployment Tax

Unemployment tax revenue increased 1.0% in 2022 to \$461.7 million. Even before adjusting for inflation, that was the second lowest level of collections since 2002, above only 2021 and a massive drop from the 2012 peak of nearly \$1.2 billion.

With the advent of COVID-19, [unemployment claims skyrocketed](#) and the jobless fund’s balance dropped as it paid out on those claims. That would have normally triggered higher payroll tax rates on employers to help replenish the fund. The Legislature and Evers stepped in to prevent that tax increase, however, by approving a \$60 million transfer from the state’s general fund to the unemployment fund in both 2022 and 2023.

That begins the process of replenishing the jobless fund and delays any tax increase. Future rate increases still might occur, however, if the fund’s reserves do not rebound adequately. That remains a possibility given

Figure 5: Gas Tax Revenues Reverse Slide
Wisconsin motor fuel tax revenues by year in millions (2022\$)



Sources: Wisconsin Annual Fiscal Reports; Bureau of Labor Statistics



the large loss during the pandemic – though the governor and lawmakers could consider further general fund transfers to avoid that.

LOCAL TAXES

Total local tax collections rose 2% to \$11.58 billion in 2021, up from \$11.35 billion the previous year. The increase was a slowdown from 2020 and was much lower than both inflation and personal income growth. That led to yet another decrease in the local tax burden to 3.3% – the lowest level in our half century of records.

The falling local tax burden is largely due to a number of efforts by state officials over the past decade to hold down property taxes, the largest single tax in Wisconsin and one that accounts for nearly all local taxes. In recent years, local governments have seen some larger percentage increases in collections from much smaller revenue sources such as vehicle registration fees and county sales taxes but those are relatively minor compared to levies on properties.

Property Tax Collections

Gross property tax collections on bills sent out in December 2021 and paid into 2022 grew 1.6% to \$12.21 billion – much less than the increase in consumer prices. In addition, overall state tax credits grew last year so the net taxes owed by property owners after subtracting state credits increased by only 0.8% to \$10.78 billion.

The three state property tax credits – the lottery, school levy, and first dollar credits – reduced local tax levies by a combined \$1.43 billion in 2021, an 8.1% increase over the previous year. This was due entirely to a 45.5% rise in the lottery credit to \$343.6 million from \$236.1 million in the previous year. The school levy and first dollar credit remained stable at \$940 million and just under \$148 million respectively.

In the 2021-23 budget, Evers and lawmakers boosted state aid to schools without increasing state limits on overall school revenues, which has [slowed growth](#) in property taxes levied by school districts and held down funding for K-12 education. They also kept tight limits on county, municipal, and technical county levies. [School and other local government referenda](#), however, are still leading to some property tax increases, as are [rising municipal and county debt payments](#).

Sales Taxes

In addition to the 5% state sales tax, counties can opt to impose an additional sales tax of 0.5%. County sales tax revenues rose by a robust 15.3% in calendar year 2021 to \$553.2 million. (Unlike most other taxes, this report has traditionally used calendar year data for the county sales tax.)

One reason for the continued growth in revenues in recent years was the implementation of a sales tax by both Outagamie and Menominee counties in the spring of 2020. To date, only four of Wisconsin's 72 counties (Manitowoc, Racine, Waukesha, and Winnebago) have not adopted a local sales tax.

Wheel Taxes

Municipalities and counties have the option to enact a local vehicle registration fee, also known as a “wheel tax,” that must be used for transportation-related spending. Fees adopted by local governments have ranged between \$10 and \$40 annually.

Some Wisconsin residents pay these fees to both their municipal and county government (as well as the state vehicle registration fee), including motorists who live in Madison and Milwaukee and pay to both their respective cities and to Dane and Milwaukee counties.

Total revenue from local wheel taxes rose 3% to \$64.6 million in fiscal 2022, which is more modest growth than has been seen in recent years. For more on this trend, see this [Forum brief from November 2021](#).

Room, Premier Resort, and Local Expo Taxes

In general, municipalities have the ability to enact hotel room taxes of up to 8% as long as 70% of the revenue from these room taxes is used for promoting tourism in the municipality.

Despite a rather tumultuous past two years because of the COVID-19 pandemic, hotel room tax collections have made a substantial rebound, from \$65.1 million in calendar year 2020 to an estimated \$109.2 million for 2021, a 67.7% increase. While Milwaukee and Madison [took somewhat longer to recover](#) because of their dependence on business travel, room tax revenues in other communities around the state essentially bounced back from the pandemic in 2021.



In Milwaukee, state authorization to levy a room tax and two more tourism-related taxes is granted to the exposition district supporting the Wisconsin Center. Collections for the district in fiscal 2022 fully rebounded from the massive plunge they took during the worst of the COVID-19 pandemic. Revenues from district taxes on hotel rooms, food and beverage sales, and car rentals more than doubled to \$36.5 million, surpassing the largely pre-COVID total in fiscal year 2020 of \$35.5 million.

Additionally, seven Wisconsin municipalities that are tourist destinations can impose what are known as premier resort area sales taxes on certain sales by certain businesses. After dropping substantially during COVID-19, these sales tax collections rose 49.5% in calendar year 2021 to \$12.1 million, topping their pre-pandemic high.

FEDERAL TAXES

After the federal tax burden for Wisconsin taxpayers fell to its lowest level in a half century in 2020 at 16.2%, it increased to 18.7% in 2021 and to an estimated 18.9% in 2022. Though federal taxes are not the main focus of this report, they comprise the majority of taxes paid by Wisconsinites (\$66.45 billion estimated in federal fiscal year 2022 compared to \$35.36 billion in state and local taxes). The increase from 2020 reflects in large part the

recovery in the state economy that increased earnings and profits for workers and businesses.

Even with the increase at the federal level, the combined 2022 federal, state, and local taxes as a share of income in the state was an estimated 29.0% – up somewhat from 26.4% in 2020 but still one of the lowest years of the past half century (see Figure 6).

CONCLUSION

The current 2021-23 state budget put considerable focus on lowering Wisconsin’s tax burden, cutting state income taxes by \$1 billion a year and keeping strong downward pressure on local property taxes. With a [massive state surplus](#) waiting for lawmakers and the governor, they will have ample opportunity in the next budget to cut income taxes once again and potentially eliminate the personal property tax levied on certain types of equipment besides real estate.

Yet state leaders may want to give thought to other state and local needs as well. As the Forum has noted, spending on K-12 education in the state has also dropped below national averages in recent years as it has fallen in tandem with the state’s tax burden. Wisconsin’s public sector workforce also left their state and local jobs [at record rates in 2021](#).

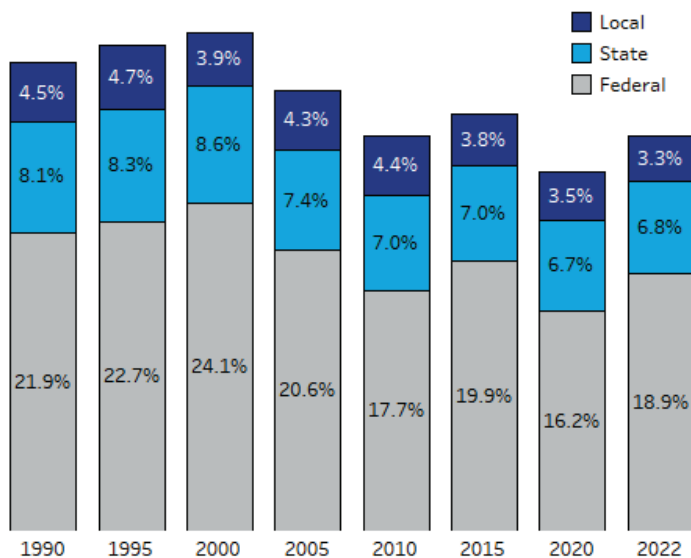
Local governments and school districts have managed through the pandemic in part with the help of an influx of billions of dollars in federal relief funding. But with that aid expiring after 2024, local officials will have fewer tools to deal with rapidly rising inflation and protect services like public safety.

In brief, state officials have kept local taxes on a much tighter leash in recent years than they have their own. That contrasts with the decade from 2000 to 2010, when local tax revenues grew more quickly than state collections, in large part because the relatively stable property tax was not hit as hard by the Great Recession as state income and sales taxes.

Since then, the picture has changed completely, as Figure 7 on page 7 makes clear. Even with the recent large income tax cut, state tax revenues have grown by 56.9% since 2010. Local tax collections, on the other hand, have grown by only 23.7% over that same period, or less than half.

Figure 6: Federal Taxes Tick Up But Overall Tax Burden Remains Relatively Low

Local, state, and federal taxes as a share of personal income

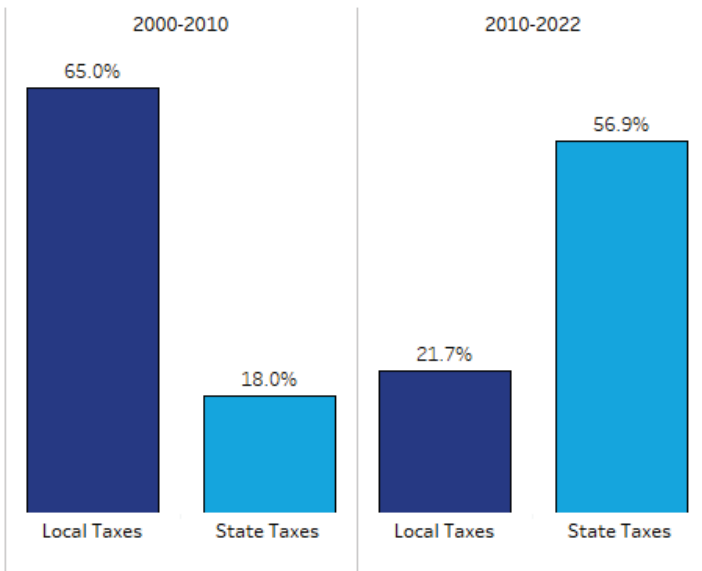


Sources: Internal Revenue Service & Office of Management and Budget. *Federal 2022 tax burden is estimated.



Figure 7: State Tax Revenues Now Outpace Locals

Percentage growth in tax collections by period and type of government



Source: Wisconsin Policy Forum data; Note: local tax collections do not include state property tax credits. Including them would change growth in local collections to 63% for 2000-2010 and 23.7% for 2010-2022.

These figures provide only a crude metric to judge the fortunes of state and local budgets, since the state passes along a large share of the revenue it raises to local communities in the form of aid to their schools and local governments and support for programs such as Medicaid health care that touch every part of the state. Still, the discrepancy in tax collections alone is worth noting.

For their part, voters have shown some concern over the funding available for K-12 education, public safety, and other local services. In a [growing number of referenda](#), voters have opted to raise their own property taxes to increase the resources available for local school districts and even more recently for other local governments as well. This trend, however, may exacerbate differences between the communities with the means and willingness to approve these ballot questions and those that do not.

In a typical budget year, state officials would have to choose between addressing these funding needs at the local level and restraining the growth in taxes. This year, they will likely have the opportunity to accomplish both and in so doing address some of the recent imbalance between the growth in funding at the state and local level.

