Governing Wisconsin
From the Wisconsin Legislative Reference Bureau

Wisconsin Taxes

In an 1819 U.S. Supreme Court decision, *McCulloch v. Maryland*, Chief Justice John Marshall said that "the power to tax involves the power to destroy." Although the decision is most notable for its exposition on the limits of federal authority, it also provides a legal and logical foundation for a state's ability to tax activities occurring within the state. Chief Justice Marshall also said that the power to tax is the power to create. In short, a state may use its taxing authority to discourage some activities (imposing a cigarette tax, for example) and to encourage others. No matter what the purpose of the tax, the primary goal of imposing a tax is to raise revenue for operating the state and the local governmental units within the state. In Wisconsin, the most important taxes for generating revenue are the property tax, the income tax, and the sales tax.

Property Tax

The property tax works by charging a property owner a percentage of the property value. For example, in 2003-04, Milwaukee property taxes were about 2.4 percent, so a homeowner with a house worth $100,000 paid $2,400 annually. The U.S. property tax system was adapted from the English system, but the idea of raising revenue from imposing a property tax can be traced to the ancient world. In 5000 BCE, for example, Egypt taxed the value of grain, cattle, oil, beer, and land.

The Northwest Ordinance of 1787 established the initial criteria for imposing property taxes in the territory that would become Wisconsin: "No tax shall be imposed on lands [that are] the property of the United States, and in no case shall non-resident proprietors (property owners) be taxed higher than residents." When Wisconsin adopted its constitution in 1848, the property a person owned was the best indication of the person's wealth.

The property tax is an appealing tax to impose because it is the most reliable way for a local governmental unit (city, town, village, county, school district, etc.) to raise money. The local governmental unit decides what it needs to spend for the coming year, determines the value of the property located within its boundaries, and then adjusts its property tax rate to collect that amount.

The property tax system in this state had serious problems prior to the 20th century. Article VIII, section 1, of the Wisconsin Constitution requires "uniform" property taxation. In other words, with certain exemptions that the legislature authorizes, all property should be assessed at its fair market value, without regard to the property owner's status and without substantial variance from one community to the next. Property tax assessments prior to the 1900s were not uniform, in part because the assessments were not performed by trained personnel. The assessments also were frequently tainted by local favoritism. In 1867, for example, the Door County board raised the property values in the town of Liberty Grove, a Norwegian settlement, and lowered the property values in the town of Brussels, a Belgian settlement. Consequently, the residents of the Belgian settlement paid less property tax than the residents of the Norwegian settlement. The county board consisted of three members, and all three were of Belgian descent.

In 1899, the legislature and the governor created a temporary tax commission to supervise the property tax system. The state expanded the commission's duties in 1902, and the commission became permanent in 1905. The commission seemed to have an immediate impact on the local property tax assessments: in 1902, the average local property tax assessment was 78 percent of full market value, as opposed to approximately half that percentage in 1901.

Today, the Department of Revenue trains and certifies all property tax assessors, and annually reviews all local property tax assessments and adjusts the property values reported from any taxing jurisdiction that seem too high or too low compared to the value of similar property elsewhere in the state. Taxpayers may object to their property tax assessments before a local board of review and appeal an adverse decision from the board of review to the tax appeals commission and, if necessary, to the courts.

In 2005, property owners paid over $7 billion in property taxes. Local governmental units collected approximately 99 percent of that amount and the state collected the remaining 1 percent for forestry-related purposes. Residential property owners paid 70 percent of the property taxes collected in 2005.

Income Tax

Wisconsin experienced an economic boom in the 1880s and 1890s from the growth of railroads and insurance, telegraph, and telephone companies. At that point, the true measure of a person's wealth had to include income, and income-producing activities, as well as property.

In 1908, the citizens amended the constitution to allow a tax on incomes, privileges, and occupations. This change resulted in imposing the nation's first *workable* state income tax in 1912. Several other states had established a state income tax prior to 1912, but those tax systems suffered from poor administration. Wisconsin's income tax was also one of the most innovative state tax systems. For example, in 1927, the state allowed a taxpayer to subtract personal exemptions from the amount of the tax that he or she owed the state rather than from the taxpayer's total taxable income. So each person's exemption had the same value, relative to the person's tax liability, regardless of the amount of the person's income. Other states adopted this innovation.

Today, Wisconsin imposes an income tax on individuals and on corporations. For tax purposes, a person's Wisconsin gross income is generally based on the person's federal gross income. The person then subtracts deductions and exemptions from the Wisconsin gross income to determine the person's Wisconsin taxable income. The person's state income tax liability is the Wisconsin taxable income, minus any tax credits. Tax credits are usually created to provide tax relief to certain persons or to encourage certain economic activity. For example, a corporation may claim tax credits for creating jobs in development zones; a dairy farmer may claim tax credits for expenses paid to update equipment and expand the operation; and a disabled veteran may claim an income tax credit for the amount of the property taxes the disabled veteran paid on his or her principal dwelling.

Did You Know?

Taxable income is your gross income (total money earned) minus an individual deduction (money you earn but not taxed). If you were single and earned $20,000 in 2006, your personal deduction would be about $7,500, which means you would be taxed on $12,500 (your taxable income). Without other deductions, a person with a taxable income of $12,500 would pay $630 in state income tax over the course of one year—this is part of the money deducted from your paycheck.

For fiscal year 2005-06, the state collected over $6 billion in individual income taxes and almost $800 million in corporate income taxes. The amount of corporate income taxes, however, represented less than 7 percent of the state's general fund revenue; individual income taxes represented more than 50 percent of the state's general fund revenue.

Sales Tax

The state imposes a number of "privilege" taxes, as authorized by the 1908 constitutional amendment. The most significant privilege tax, in terms of the amount of money raised for state purposes, is the state sales tax: a tax imposed on retailers for the "privilege" of selling goods and certain services. The sales tax includes imposing a "use tax" on goods and services that are purchased out-of-state and "used" in this state and for which the out-of-state retailer has not collected the state sales tax. The duty to pay the use tax falls on the purchaser because, consistent with U.S. Supreme Court cases, the state cannot force an out-of-state retailer to collect the state sales tax.

Wisconsin did not adopt a sales tax until 1962. At that time the tax rate was 3 percent of the purchase price of certain goods and services. The goods and services subject to the sales tax in 1962 included alcoholic beverages, tobacco, motor vehicles, household furnishings, recreational equipment, restaurant meals, hotel rooms, telephone services, and entertainment admissions. As required by the law imposing the tax, the state paid $55,000,000 to towns, villages, and cities, which then distributed the money to the taxpayers. After many subsequent modifications, the direct distribution of sales tax revenue to local governmental units was eliminated in 1971, although similar provisions were incorporated into the distribution of state revenues under the "shared revenue" program.

The sales tax rate increased to 4 percent in 1969 and the tax became a general, rather than a selective, tax on the sale of goods. In other words, the sale of any product is considered subject to the tax, unless specifically exempted. But the sale of a service is considered not subject to the sales tax unless the law specifically indicates the service is taxable. The tax rate increased again in 1982 to its current rate of 5 percent. This increase approved by the legislature was supposed to be a temporary measure to increase property tax relief. In 1983, facing a substantial deficit, the state made permanent the 1 percent sales tax rate increase *and* eliminated the 1 percent increase in property tax relief. In 2005, the state collected over $4 billion in state sales taxes.

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Study Questions

1	What are the three most common taxes used by state and local governments?	
2	Why would property taxes be a more reliable way for local governments to collect revenue than, for example, a local sales tax?	
3	If you buy a $20,000 car, how much extra will you pay in state sales tax?	
4	In 2005-06, Wisconsin collected $12 billion in taxes. Based on information in the essay, how much of that money was collected from individual, corporate, and sales taxes? Make a pie chart to represent the distribution. Note: There were $1.2 billion in miscellaneous taxes.	
5	If the legislature determined there existed an obesity epidemic among young people, would you be in favor of a 1 percent "snack tax" on the sale of candy, chips, and sodas if the money was used to improve fitness and nutrition programs in schools? Why or why not?	
6	Think of one other tax scheme that might encourage or discourage certain behaviors. What are some arguments for and against your idea?	

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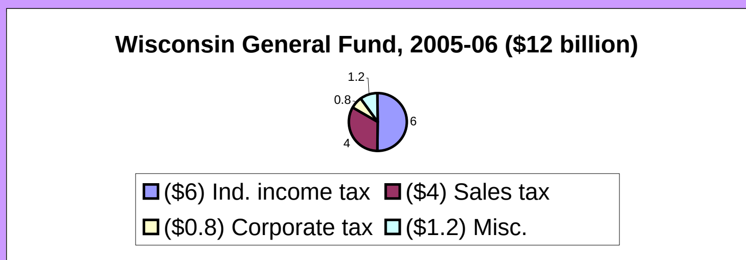
Study Questions in the Cognitive Domain

1	What are the three most common taxes used by state and local governments?	Property tax, income tax, and sales tax.	Cognition
2	Why would property taxes be a more reliable way for local governments to collect revenue than, for example, a local sales tax?	The local government can estimate more easily the value of property and charge owners a fixed value. Sales taxes fluctuate from year to year, depending on how much or what people buy.	Comprehension
3	If you buy a $20,000 car, how much extra will you pay in state sales tax?	Wisconsin sales tax is 5 percent, so you will pay $1,000 ($20,000 x 0.05).	Application
4	In 2005-06, Wisconsin collected $12 billion in taxes. Based on information in the essay, how much of that money was collected from individual, corporate, and sales taxes? Make a pie chart to represent the distribution. Note: There were $1.2 billion in miscellaneous taxes.		Analysis
5	If the legislature determined there existed an obesity epidemic among young people, would you be in favor of a 1 percent "snack tax" on the sale of candy, chips, and sodas if the money was used to improve fitness and nutrition programs in schools? Why or why not?	This is an opinion question, but teachers may note there is currently an excise tax on tobacco and alcohol, which in 2005-06 brought in $370 million in state revenue (part of the miscellaneous taxes listed in question 4).	Synthesis
6	Think of one other tax scheme that might encourage or discourage certain behaviors. What are some arguments for and against your idea?	A gas tax might reduce driving. The state could impose a pollution tax on corporations. The state could also encourage certain behaviors through tax credits, for example, for buying a hybrid car, installing solar panels, or making donations to charitable organizations.	Evaluation