

THE USE OF THE  
\$URTAX ON  
INCOME IN  
WISCONSIN

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## HIGHLIGHTS

1. The Wisconsin income tax law, enacted by Chapter 658, Laws of 1911, was the first workable income tax law in the United States.
2. From 1911 to 1926 Wisconsin income taxes were collected by local treasurers. From 1926 to 1933 they were collected by county treasurers and since 1934 they have all been collected by the state.
3. Normal individual and corporate income taxes are shared by the state with the towns, villages, cities and counties from which the income is derived. 50% is returned to the town, village or city, 10% to the county and 40% is retained by the state.
4. Since 1920 the state has always levied at least one additional tax on income, called a surtax.
5. Except for the Teachers Retirement Fund Surtax which is shared with Milwaukee, the entire revenue from surtaxes goes to the state.
6. Surtaxes are normally levied to provide funds for special purposes, such as a soldier's bonus, relief, old age assistance, building construction; but they may be levied merely to augment the general or segregated funds of the state.
7. The first surtax was enacted in 1919 to raise funds for a bonus and to provide educational aids for veterans of World War I.
8. By far, the largest and most lucrative surtax has been the Teachers Retirement Fund Surtax from which the state's contribution to this fund is provided. If the surtax does not provide enough money, the balance is made up from the general fund. If the tax provides a surplus, it goes into the general fund. In recent years the general fund has regained what it lost during the lean years.
9. The surtax has been used to provide additional funds for relief, but because the income tax is geared to prosperity, it is not a lucrative source of revenue during times when relief costs are high.
10. The most recent surtax was the 1949 25% surtax which was allowed to expire in 1951 because the collection years were not extended.

THE USE OF THE SURTAX ON INCOME IN WISCONSIN

## INTRODUCTION

Although the structure of the normal income tax in Wisconsin has changed little in terms of rates since 1911, substantial changes in the revenue produced by the income tax have resulted from 3 factors: increased skill in collection, a phenomenal increase in the level of income and the application of additional taxes on income or surtaxes.

Since 1919 the state has collected one or more such surtaxes every year. In each instance the moneys collected go to the state, and, except for the Teachers Retirement Fund Surtax, are not shared with the subordinate units of government. It is a device to augment the coffers of the state.

The following enumeration is intended to provide an explanation of each of the surtaxes thus far enacted in Wisconsin.

## CHRONOLOGY OF ACTS RELATING TO THE SURTAX

- 1919 Chapter 667 imposed a mill tax and a surtax on income sufficient to pay a bonus to veterans of World War I.
- 1919 Spec. Session, Chapter 5 imposed a surtax for 5 years to provide funds for veterans who desired to continue their education.
- 1921 Chapter 459 imposed a surtax of 1/6 of the normal tax on both individual and corporate income to pay the state's share of the teachers retirement contribution.
- 1921 Chapter 459 provided for the allocation of 25% of the surtax collected in Milwaukee to go to the teachers retirement system of that city.
- 1931 Spec. Session, Chapter 29 levied a surtax at rates equal to the normal tax on the 1931 income for payment of relief costs.
- 1933 By Chapter 363, a similar surtax was levied on the 1932 income for the same purposes.
- 1935 Chapter 15, section 2, another emergency surtax was levied for relief on the 1934 income.
- 1935 Chapter 15, section 6, another emergency surtax was levied, this time on certain 1933 dividends.
- 1935 Chapter 505, a 60% surtax was levied on the 1935 and 1936 incomes to provide funds for old age assistance, mothers' pensions and school aids. The same act levied a privilege dividend tax of 2-1/2% on dividends declared and paid before July 1, 1937.
- 1937 Chapter 309, the 60% surtax was extended to the incomes for 1937 and 1938. Chapter 309 extended the privilege dividend tax to dividends paid before July 1, 1939.
- 1939 Chapter 198, the privilege dividend tax was extended to 1941 and the rate increased to 3%.

- 1939 Chapter 443, the 60% surtax was extended to the incomes for 1939 and 1940.
- 1941 Chapter 63, the 60% surtax was extended to the incomes for 1941 and 1942. The act also extended the privilege dividend tax to 1943.
- 1943 Chapter 74, the surtax on the 1942 income was transferred to the Postwar Rehabilitation Fund for the medical, educational and economic rehabilitation of veterans of World War II.
- 1943 Bill 28, S. sought to prevent the levying of the tax on 1942 incomes, but Governor Goodland vetoed it.
- 1943 Chapter 368 extended the privilege dividend tax to July 1, 1945.
- 1945 Chapter 333 extended the privilege dividend tax to July 1, 1947.
- 1947 Chapter 318 extended the privilege dividend tax to 1949.
- 1949 Chapter 493 imposed a 25% surtax on individual income for 1949 and 1950 for state building construction and school aids. Efforts to extend the tax beyond 1950 have failed.
- 1951 Chapter 394 extended the privilege dividend tax to include dividends declared and paid before December 31, 1951.
- 1953 Chapter 614, the Teachers Retirement Surtax, was integrated into the normal income tax so that it is now all one tax.

SOLDIER'S BONUS SURTAX

In 1919, by Chapter 667 of the laws of that year, provision was made for a referendum to be held September 2, 1919 on the question "Shall there be levied in the year 1919 a mill tax not to exceed 3 mills on the dollar and an income tax sufficient to raise an aggregate sum of approximately fifteen million dollars to be paid by the state to Wisconsin soldiers, sailors, marines and nurses as stated in Chapter 667 of the laws of 1919?" The vote was: 165,762 yes and 57,324 no.

There were 2 parts to the tax levy, a mill tax and a surtax. The mill tax collected in the fiscal year 1919-20 amounted to \$6,929,859. In the next year an additional \$18,168 was collected.

The surtax was levied on the income received during the year ending December 31, 1918. The rates were as follows:

	Individual	Corporation
1st \$1,000	0	2%
2nd "	0	2½%
3rd "	0	3%
4th "	1-3/4%	3½%
5th "	2%	4%
6th "	2½%	5%
7th "	3%	6%
8th "	3½%	6%

	Individual	Corporation
9th \$1,000	4%	6%
10th "	4½%	6%
11th "	5%	6%
12th "	5½%	6%
Over 12th "	6%	6%

The soldier's bonus tax law provided a deduction of 6% of the capital stock, surplus and undivided profits of a corporation from the net income. It also provided that the personal property offset should not apply to this surtax.

The money was to be paid by the Service Recognition Board to soldiers, sailors, marines and nurses who served in the armed forces during the war against Germany and Austria at the rate of not more than \$10 for each month of service with a minimum of \$50. It did not apply to members of the SATC nor to civilian workers, but did apply to Red Cross nurses.

The Soldier's Bonus Surtax and the Soldier's Educational Surtax were not separated in the tabulations available to us, and therefore the collections made will appear after the discussion of the Soldier's Educational Surtax.

#### SOLDIER'S EDUCATIONAL SURTAX

The special session of 1919 enacted Chapter 5 which provided that veterans of the first world war who desired to continue their education could receive in lieu of the cash bonus \$30 per month but not to exceed a total of \$1,080 while going to school.

To provide the funds a property tax of not to exceed one mill on each dollar of assessed valuation as determined by the Emergency Board was authorized for 5 years and a surtax was levied for 5 years. This was administered by the State Board of Education which existed from 1915 to 1923. The rates for this surtax were as follows:

	Individual	Corporation
1st \$1,000	0	4/10 of 1%
2nd "	0	5/10 of 1%
3rd "	0	6/10 of 1%
4th "	7/20 of 1%	7/10 of 1%
5th "	4/10 of 1%	8/10 of 1%
6th "	5/10 of 1%	1%
7th "	6/10 of 1%	1-2/10%
8th "	7/10 of 1%	1-2/10%
9th "	8/10 of 1%	1-2/10%
10th "	9/10 of 1%	1-2/10%
11th "	1%	1-2/10%
12th "	1-1/10%	1-2/10%
13th and over "	1-2/10%	1-2/10%

Although the collection of the tax for the bonus and educational assistance extended from 1920 to 1939 the bulk of the tax was collected in the first 5 years. The following collections were made:

1920 .....	\$8,824,532	1931 .....	\$ 2,673
1921 .....	1,353,626	1932 .....	36,088
1922 .....	1,524,356	1933 .....	3,747
1923 .....	1,028,148	1934 .....	344
1924 .....	1,410,156	1935 .....	1,565
1925 .....	230,773	1936 .....	1,776
1926 .....	109,261	1937 .....	4,250
1927 .....	268,010	1938 .....	1,134
1928 .....	24,407	1939 .....	3,957
1929 .....	48,660	Total .....	\$14,966,294
1930 .....	88,831		

TEACHERS RETIREMENT FUND SURTAX

By Chapter 459, Laws of 1921, which revised the entire state teachers retirement system, a state contribution was first provided. This was a surtax on net income over \$3,000 of 1/6 the normal tax for both individual and corporate income received in the calendar year ending December 1920 and annually thereafter.

This procedure was in effect until by Chapter 614, Laws of 1953, the normal rates were increased, the separate computation for the Teachers Retirement Fund Surtax was repealed, and a sum equal to 14% of the normal tax collection from corporations and 8% of the normal tax collections from individuals was set aside for the retirement deposit fund and contingent fund. This new procedure applies to all taxes collected after July 1, 1953.

Chapter 459 of 1921 also provided that the State Treasurer pay to the City Treasurer of each city of the first class 25% of the surtax levied on and collected from the taxpayer of such city, which sum was to be paid to the Teachers Retirement Fund of that city. This had to be done because the Milwaukee City Teachers Retirement Fund is separate from the state. Thus the annual statement of the distribution of taxes by the Tax Department discloses that part of the Teachers Retirement Fund Surtax goes to localities. The 25% was raised to 40% by Chapter 413, Laws of 1923.

Subsection (9) of section 71.15 of the statutes which relates to the distribution of this tax states that if the surtax is not adequate to provide the money necessary for the retirement fund, the deficit shall be made up from the general fund, and conversely if there is a surplus, it shall go to the general fund.

The following table shows how much has been collected under the Teachers Retirement Fund Surtax, the amount which went to the Milwaukee and the state retirement systems, and the amount reverting to the general fund.

TABLE 1. TEACHERS RETIREMENT FUND SURTAX COLLECTIONS AND ALLOCATIONS

Year	Total Surtax Collected(1)	Allotted to Milwaukee for Teachers Retirement(2)	Paid to State Teachers Retirement Fund(3)	Estimated Surplus Returned to General Fund(4)
1922	\$ 1,504,391	\$ 114,648	\$ 568,240	\$ + 821,503
1923	727,075	89,565	859,337	-221,827
1924	1,473,694	237,241	1,702,531	-466,078
1925	1,690,076	262,582	1,364,322	+ 63,172

TABLE 1. TEACHERS RETIREMENT FUND SURTAX COLLECTIONS AND ALLOCATIONS (Cont.)

Year	Total Surtax Collected(1)	Allotted to Milwaukee for Teachers Retirement(2)	Paid to State Teachers Retirement Fund(3)	Estimated Surplus Returned to General Fund(4)
1926	\$ 1,588,854	\$ 240,221	\$ 1,538,467	\$ -189,834
1927	2,124,749	350,036	1,432,804	+341,909
1928	360,430	No information	1,507,985	-1,147,555
1929	2,112,864	382,739	1,591,097	+139,028
1930	2,597,382	359,930	1,655,790	+581,662
1931	2,480,234	361,525	1,730,082	+388,627
1932	1,986,527	303,395	1,809,073	-125,931
1933	1,543,560	204,873	1,754,486	-415,799
1934	1,353,436	184,632	1,741,428	-576,095
1935	824,581	118,087	1,763,893	-1,024,519
1936	1,204,507	179,220	1,858,408	-814,478
1937	1,778,283	271,334	1,851,962	-356,156
1938	1,667,833	232,215	1,991,525	-433,742
1939	1,284,131	152,860	2,143,582	-1,104,074
1940	1,530,656	175,504	1,891,305	-617,666
1941	2,044,085	228,976	2,236,188	-420,869
1942	4,125,214	453,795	2,291,916	+896,826
1943	5,424,400	702,068	2,533,914	+2,188,418
1944	7,259,498	1,060,341	2,481,883	+3,717,274
1945	5,751,371	862,035	2,546,740	+2,342,596
1946	6,054,351	1,083,657	2,662,728	+2,307,966
1947	6,512,609	752,035	2,938,064	+2,822,510
1948	8,364,613	995,683	3,471,079	+3,897,851
1949	9,311,462	1,125,293	3,916,337	+4,269,832
1950	8,037,864	957,128	3,596,393	+3,484,343
1951	10,742,102	1,234,208	4,095,395	+5,412,499
1952	10,840,795	1,365,514	5,316,140	+4,159,141
1953	12,598,183	1,437,987	5,881,411	+5,278,785

(1) Totals from The Wisconsin Taxpayer, November 19, 1953, p. 6.

(2) Taken from Wis. Dept. of Taxation, Taxes and Aids, 1936 and subsequent annual issues.

(3) Taken from The Wisconsin Taxpayer until 1942; 1943-49 from Teachers Retirement Administration Board; since 1949 from Wisconsin State Budget.

(4) Data through 1942 taken from The Wisconsin Taxpayer, August 15, 1943, p. 4. After 1942 computed by subtracting columns 2 and 3 from column 1. Apparent error in surplus in general fund for years 1934 to 1942 is because of discrepancy in net surtax available.

#### FIRST EMERGENCY RELIEF SURTAX ON INCOME

By Chapter 29, laws of the special session 1931-32, an emergency surtax to meet the relief costs was levied on the net income for the 1931 calendar year of all persons other than corporations. The rate was the same as for normal income taxes. Under this program the following taxes were collected:

1932	.....	\$ 1,560
1933	.....	5,318,898
1934	.....	229,242
1935	.....	131,007
1936	.....	109,770
1937	.....	76,255

Subsequent to 1937 small amounts may have been included in the general category of "all expired surtaxes".(1)

#### SECOND EMERGENCY RELIEF SURTAX ON INCOME

By Chapter 363, Laws of 1933, a surtax was levied on the net income of all persons other than corporations for the income received during the calendar year 1932 at the following rates:

1st	\$1,000	.....	1%
2nd	"	.....	1-1/4%
3rd	"	.....	1 1/2%
4th	"	.....	2%
5th	"	.....	2 1/2%
6th	"	.....	3%
7th	"	.....	3 1/2%
8th	"	.....	4%
9th	"	.....	4 1/2%
10th	"	.....	5%
11th	"	.....	5 1/2%
12th and over	"	.....	6%

Under this tax the following collections were made:

1934	.....	\$1,935,378
1935	.....	93,933
1936	.....	67,843
1937	.....	42,362
1938	.....	39,064
1939	.....	33,919

Subsequent to 1939 small amounts may have been included in the general category of "all expired surtaxes".(1)

#### SURTAX ON 1933 DIVIDENDS

By Chapter 15, section 6, Laws of 1935, a somewhat different type of surtax was levied. It provided a tax on net dividend income received during 1933 by persons other than corporations. There was an exemption of \$750 and the rates were set at 1% on the first \$2,000 of net dividend income, 3% on the next \$3,000 and 7% on all above \$5,000. The fund was for unemployment relief purposes. The collections under this tax are not listed separately.

#### THIRD EMERGENCY RELIEF SURTAX ON INCOME

By Chapter 15, Laws of 1935, an emergency surtax on income was again levied; this time on the income for the calendar year 1934. The rates corresponded to the rates in 1933 except that on the income over \$12,000 the rate was 7% rather than 6%. Under this act collections were as follows:

1935	.....	\$2,453,912
1936	.....	495,812
1937	.....	77,406
1938	.....	44,273
1939	.....	36,241

(1) Statistics from Taxes and Aids, annual bulletin of the Wis. Dept. of Taxation.

Subsequent to 1939 small amounts may have been included in the general category of "all expired surtaxes".(1)

### 60% SURTAX

The 60% surtax of 1935 was enacted by Chapter 505, Laws of 1935, to apply to the net income of all persons other than corporations for the calendar years 1935 and 1936. The purpose of the tax was to provide funds for old age assistance, mothers' pensions and common school aids. By Chapter 309, Laws of 1937, this tax was extended to the calendar years 1937 and 1938. By Chapter 443, Laws of 1939, it was extended to the calendar years 1939 and 1940. Again in 1941, by Chapter 63 it was extended 2 more years to 1941 and 1942. In the 1943 session, by Bill No. 28, S., an effort was made to amend the law to prevent the application of the tax to the 1942 income. Governor Goodland on March 3, 1943 vetoed this bill. By Chapter 74, Laws of 1943, the proceeds for the tax on the 1942 incomes and all subsequent collections were transferred to the Postwar Rehabilitation Trust Fund for the medical, educational and economic rehabilitation of returning veterans of World War II. (See section 71.60 of 1941 and 1943 statutes for full text of this act and statement as to its expiration.)

The returns from it were as follows:

1936	.....	\$ 1,305,838
1937	.....	2,374,324
1938	.....	2,490,384
1939	.....	2,098,397
1940	.....	2,790,801
1941	.....	3,270,797
1942	.....	4,929,372
1943	.....	6,564,125
1944	.....	1,114,269
1945	.....	125,034

### 25% SURTAX

In 1949 by Chapter 493 a 25% surtax was levied on the income of individuals but not corporations for the years ending December 31, 1949 and December 31, 1950 or the corresponding fiscal years. This tax was levied in order to provide resources for the construction and improvement of state welfare and educational institutions and other state property and to provide increased state aids for education and is entitled "Surtax for construction and educational aids" in section 71.17 of the statutes. While the section has never been removed from the statutes, it is no longer operative because the levy was made on the income received during the calendar years of 1949 and 1950 only.

The collections under this tax were:

1949/50 (fiscal year)	.....	\$ 7,594,612
1950/51 (fiscal year)	.....	10,637,767
1951/52 (fiscal year)	.....	984,638

For various reasons payments of such taxes are delayed in some cases, and part of the \$377,327 reported in 1953 as "expired sur-taxes" refers to this tax.

#### PRIVILEGE DIVIDEND TAX

The privilege dividend tax was imposed in 1935 by section 3 of Chapter 505 as an emergency measure. It levied a tax of  $2\frac{1}{2}\%$  on the amount of dividends declared and paid by all corporations out of income derived from property located and business transacted in Wisconsin after passage of the act and before July 1, 1937. By Chapter 309, section 3, of 1937 the privilege dividend tax was extended to all dividends declared and paid before July 1, 1939.

By Chapter 198, Laws of 1939, the tax was extended to 1941 and the rate increased to 3%. The tax was extended biennially from then on until 1951 by the following acts.

Chapter 63, Laws of 1941  
Chapter 368, Laws of 1943  
Chapter 333, Laws of 1945  
Chapter 318, Laws of 1947  
Chapter 189, Laws of 1949  
Chapter 394, Laws of 1951

The privilege dividend tax expired December 31, 1951 because the legislature failed to extend the tax to income subsequent thereto.

TABLE II. COLLECTIONS UNDER THE WISCONSIN NORMAL INCOME TAX AND SURTAXES, 1913-50(1)

Year ending June 30	Total Normal(3)		Soldier's Bonus Surtax	T. R. F. Surtax		Emergency Relief Surtax			60% Surtax	25% Surtax	Privilege Dividend Tax	All Expired Taxes
	Individual	Corporation		Total	To MLIW.	1932	1933	1935				
1913	\$ 1,631,420	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
1914	1,902,988	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
1915	2,093,842	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
1916	1,959,882	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
1917	2,959,727	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
1918	6,161,068	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
1919	6,999,660	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
1920	6,310,230	.....	8,824,532	.....	.....	.....	.....	.....	.....	.....	.....	.....
1921	4,681,002	.....	1,353,626	.....	.....	.....	.....	.....	.....	.....	.....	.....
1922	7,365,525	.....	1,524,856	1,504,391	114,648	.....	.....	.....	.....	.....	.....	.....
1923	4,351,490	.....	1,028,148	727,075	89,565	.....	.....	.....	.....	.....	.....	.....
1924	6,669,040	.....	1,410,156	1,473,694	237,241	.....	.....	.....	.....	.....	.....	.....
1925	7,264,650	.....	230,773	1,690,076	262,582	.....	.....	.....	.....	.....	.....	.....
1926	12,122,223	.....	109,261	1,588,854	240,221	.....	.....	.....	.....	.....	.....	.....
1927	16,362,260	.....	268,010	2,124,749	350,036	.....	.....	.....	.....	.....	.....	.....
1928	2,376,235	.....	24,407	350,430(2)	.....	.....	.....	.....	.....	.....	.....	.....
1929	15,721,672	.....	48,660	2,112,864	382,739	.....	.....	.....	.....	.....	.....	.....
1930	18,761,273	.....	88,831	2,597,382	359,930	.....	.....	.....	.....	.....	.....	.....
1931	18,329,532	.....	2,673	2,480,234	361,525	.....	.....	.....	.....	.....	.....	.....
1932	15,235,035	.....	36,088	1,986,529	303,395	1,560	.....	.....	.....	.....	.....	.....
1933	12,001,179	.....	3,747	1,543,560	204,873	5,318,898	.....	.....	.....	.....	.....	.....
1934	10,743,265	.....	344	1,353,436	184,632	229,242	1,935,378	.....	.....	.....	.....	.....
1935	6,166,934	.....	1,565	824,581	118,087	131,007	93,933	2,453,912	.....	377,949	.....	.....
1936	8,932,130	.....	1,776	1,204,507	179,220	109,770	67,843	495,812	1,305,838	462,667	.....	.....
1937	12,677,200	.....	4,250	1,778,283	271,334	76,255	42,362	77,406	2,374,324	1,659,257	.....	.....
1938	12,000,195	.....	1,134	1,667,833	232,215	56,242	39,064	44,273	2,490,384	1,855,060	.....	.....
1939	4,595,633	5,389,239	3,957	1,284,131	152,860	47,726	33,919	36,241	2,098,397	1,239,938	.....	.....
1940	5,203,690	6,483,071	.....	1,530,656	175,501	.....	.....	.....	2,790,801	1,592,094	58,126	.....
1941	5,705,576	9,330,966	.....	2,044,085	228,986	.....	.....	.....	3,270,797	2,410,784	51,709	.....
1942	8,426,169	17,411,519	.....	4,125,214	453,795	.....	.....	.....	4,929,372	2,674,260	54,635	.....
1943	11,361,596	26,237,135	.....	5,424,400	702,068	.....	.....	.....	6,564,125	2,188,071	27,676	.....
1944	16,036,150	35,347,749	.....	7,259,498	1,060,341	.....	.....	.....	1,114,269	2,639,061	27,359	.....
1945	19,116,064	24,960,641	.....	5,751,371	862,035	.....	.....	.....	125,034	3,017,201	14,564	.....
1946	21,838,658	19,079,018	.....	6,054,351	1,083,657	.....	.....	.....	.....	1,817,535	87,744	.....
1947	27,368,452	23,292,158	.....	6,512,609	752,035	.....	.....	.....	.....	3,166,193	99,770	.....
1948	30,999,390	33,666,747	.....	8,364,613	995,683	.....	.....	.....	.....	3,706,296	98,736	.....
1949	37,793,637	35,879,574	.....	9,311,462	1,125,293	.....	.....	.....	.....	4,340,550	59,043	.....
1950	34,423,477	30,736,051	.....	8,037,864	957,128	.....	.....	.....	.....	7,594,612	4,514,378	67,035
1951	41,766,966	41,695,540	.....	10,742,102	1,234,208	.....	.....	.....	.....	10,037,767	5,265,089	61,477
1952	51,772,110	46,487,725	.....	10,840,795	1,365,514	.....	.....	.....	.....	984,638	4,916,699	63,555
1953	58,363,850	43,616,280	.....	12,598,183	1,437,987	.....	.....	.....	.....	.....	377,327	233,132

(1) Data from Taxes and Aids, annual bulletin of Wis. Dept. of Taxation.

(2) Reduction due to change in collection date; in 1928 all T.R.F. surtax to state.

(3) Prior to 1939 the figure includes both individual and corporation.