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### **Study Shows Richest 1% in Wisconsin Pay the Least in Taxes**

State and local taxes take a bigger bite out the income of middle-class and poor Wisconsin families than they do from the income of the wealthy, according to a national study released Tuesday.

In Wisconsin in 2002, the richest one percent of taxpayers paid 8.1 percent of their income in state and local taxes, the least by far of any income group, and only 5.9 percent after deducting from their federal taxes. By contrast, the poorest 20 percent of taxpayers paid 10.2 percent in state and local taxes in 2002, and middle-income taxpayers paid the most, 11.9 percent. The poorest 20 percent gain nothing from federal offset; the middle quintile gains 0.6 percent, lowering their final tax liability to 11.3 percent.

The new data on tax levels come from a comprehensive study conducted by the Institute on Taxation and Economic Policy of Washington, D.C., and released in Wisconsin by the Center on Wisconsin Strategy (COWS) and the Wisconsin Budget Project.

“This study shows just how unfairly we distribute tax burdens in Wisconsin,” said Joel Rogers, director of COWS. “If the rich here simply paid what the average working family already does, a lot of our budget woes would disappear. In the budget discussions coming up, I hope our leaders pursue this question of basic fairness.”

The report did not judge whether taxes were too low or too high, but looked at the spread of the tax burden across different income groups. Coming at a time when officials at all levels of government are struggling with major fiscal policy decisions, the report could be an important guide for policymakers concerned about tax equity.

“A very disturbing finding of the study is that Wisconsin’s tax system now falls even more heavily on low-income taxpayers than it did in 1989,” said Jon Peacock, Director of the Wisconsin Budget Project, which is part of the Wisconsin Council on Children and Families. “We’re headed in exactly the wrong direction,” he added.

Peacock noted that the share of income paid by the poorest 20 percent of taxpayers increased since 1989 from 7.9 percent of income to 10.2 percent, while the portion paid by middle and upper income groups has fallen.

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The report, "Who Pays? A Distributional Analysis of the Tax Systems in All 50 States," uses a comprehensive computer program to calculate the tax burden of non-elderly taxpayers in each state for tax year 2002. When all Wisconsin taxes are totaled up, the study found that:

- The richest Wisconsin taxpayers - with average incomes of \$777,000 - pay 8.1 percent of their income in Wisconsin state and local taxes before accounting for the tax savings from federal itemized deductions. After the federal offset, they pay only 5.9 percent.
- Middle-income Wisconsin taxpayers - those earning between \$30,000 and \$48,000 - pay 11.9 percent of their income in Wisconsin state and local taxes before the federal deduction offset and 11.3 percent after the offset-or almost twice what the rich pay.
- Wisconsin taxpayers earning less than \$18,000 - the poorest fifth of Wisconsin non-elderly taxpayers - pay 10.2 percent of their income in Wisconsin state and local taxes, which is almost twice the share the top 1 percent pay.

Rogers and Peacock said that there are several things Wisconsin could do to make the state and local tax system fairer: increasing the homestead tax credit and indexing it for inflation, increasing the state earned income tax credit, and treating capital gains the same as ordinary income for income tax purposes.

“The study reaffirms the importance of Wisconsin’s earned income tax credit for low-income working families,” Rogers stated, noting that this measure is at risk in the next state budget.

Peacock commented that the proposal to exempt dividends from taxation, which is part of the President’s economic stimulus plan, would compound the inequities shown by the study. “The wealthiest five percent of taxpayers would get 65 percent of the federal tax benefit from exempting dividends, and the plan is also expected to result indirectly in significant cuts in their share of state taxes,” Peacock said.

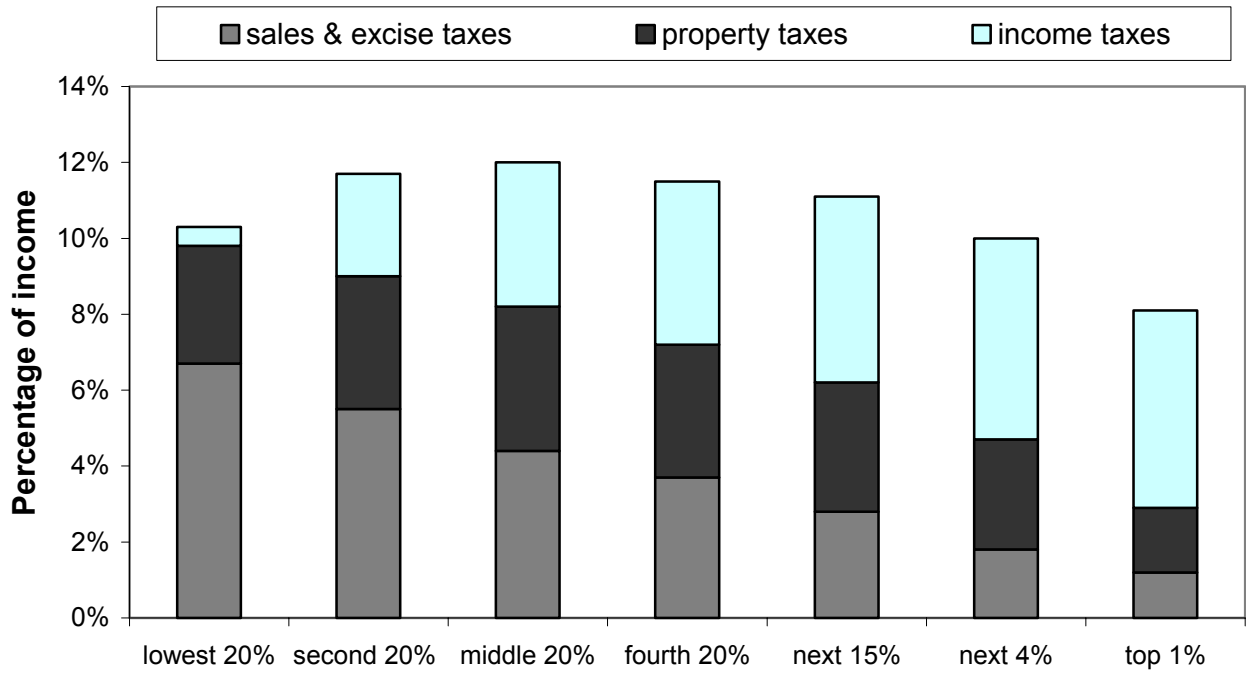
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*The Center on Wisconsin Strategy is a research and policy institute based at the University of Wisconsin- Madison dedicated to improving economic performance and living standards in the state.*

*The Wisconsin Budget Project, which is an initiative of the Wisconsin Council on Children and Families, analyzes the impacts of state fiscal policies on low- and moderate-income people in Wisconsin.*

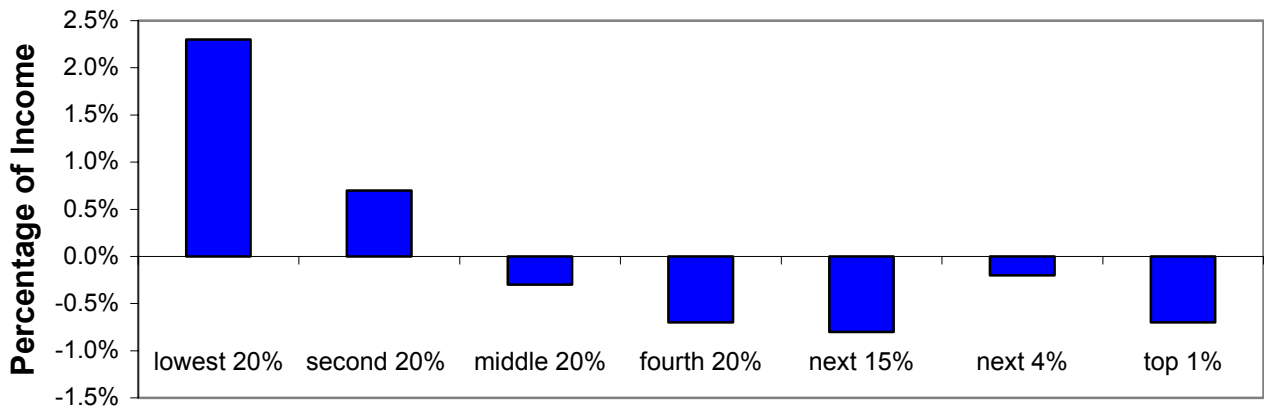
*The full report, including state-by-state results, is available at <http://www.ctj.org/itep/whopays.htm>*

## Who Pays State and Local Taxes in Wisconsin?



Source: Institute on Taxation and Economic Policy (based on tax laws and rates in effect for tax year 2002)

## Changes in State and Local Taxes as Share of Income, 1989 - 2002



Source: Institute on Taxation and Economic Policy