

Wisconsin Budget Project

Tax Trends in Wisconsin: Tracking Corporations' Share of State Revenues

Corporate taxes have emerged as a very significant and contentious issue in the biennial budget bill. This paper looks at trends in corporate taxes and we analyze how the share of state taxes derived from the corporate income tax would change under the contrasting plans that are now being debated.

The Alternative Plans

The budget passed by the Senate makes two changes increasing corporate income taxes:

- Adoption of the "combined reporting" system for corporate taxation -- which treats corporations and their subsidiaries as a single entity, thereby limiting the tax avoidance that can be accomplished by shifting profits to out-of-state subsidiaries. This will raise corporate taxes by roughly \$98 million in the next biennium.
- Capping the corporate income tax deduction for compensation paid to any employee at 25 times the compensation paid to the lowest paid full-time employee. This is expected to generate \$19.5 million over the next two years.

The Assembly Republican Caucus has developed a budget plan that does not contain either of the two changes recommended by the Senate. Instead, it cuts corporate taxes in several ways. It phases in "single sales factor" apportionment -- which is a revised formula for calculating what percentage of a multi-state corporation's profits is taxed in Wisconsin. The "SSF" change would:

- Cut taxes for about 2% of corporations doing business in the state and raise taxes for about 3%.
- Despite the fact that there are more "losers" than "winners", it would produce a net annual tax cut of \$80 million once it is fully phased in.

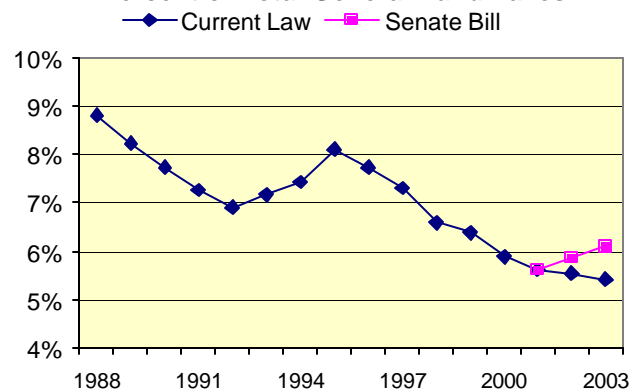
The Assembly plan also removes the provision proposed by the Governor extending the sales tax to customized software, which would have generated \$52 million over the next two years. Their plan also creates a property tax exemption for restaurant kitchen equipment, which removes about \$195 million from the property tax rolls.

Current and Projected Trends

Chart 1 shows the percentage of general fund taxes derived from the corporate income tax in fiscal years 1988 through 2000, and the Legislative Fiscal Bureau projections for the current fiscal year and the next biennium.

In 1979 corporate income taxes comprised 11.3% of total state tax revenue. That share dipped to 8.8% in 1988 (where our graph starts), and it fell to just 5.9% of state taxes in 2000. It continues to drop, and under current law it is expected to slip to just 5.6% -- only half the 1979 level.

Chart 1. Corporate Income Taxes as a Percent of Total General Fund Taxes



Wisconsin Budget Project, data from Legislative Fiscal Bureau

Where the two lines diverge on the chart, the lower line is based on the assumption that current law continues in 2001-03. The higher line illustrates what would happen to the corporate income tax's share of total state taxes if the Senate changes were enacted. Under that plan the share of total state taxes from the corporate income tax would rebound to 6.1% in 2003. Barring future changes in the tax code or with respect to corporate profits, the corporate share is likely to level off at that point.

Under the Assembly tax plan the phase-in of the change in the apportionment formula would not start until 2004, so it will not affect the upcoming biennium. However, if the proposed change were fully implemented in 2003, corporate income taxes would drop to 4.7% of total state taxes.

Individual and corporate income taxes and sales taxes together comprised about 92% of all general fund tax collections in fiscal year 2000.

Chart 2. General Fund Tax Collections
Fiscal Years 1988-2003 (\$ in billions)

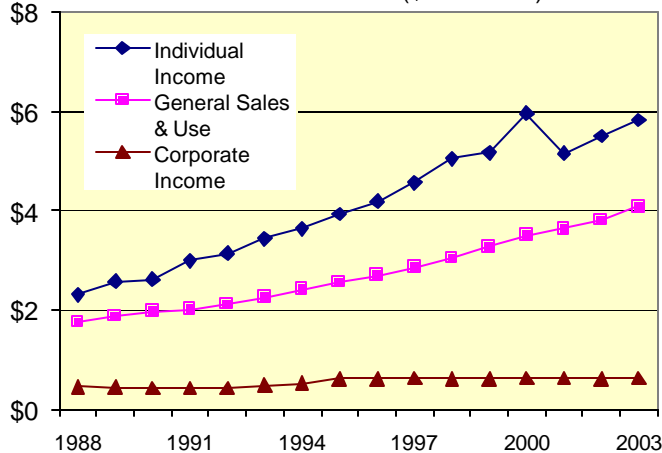
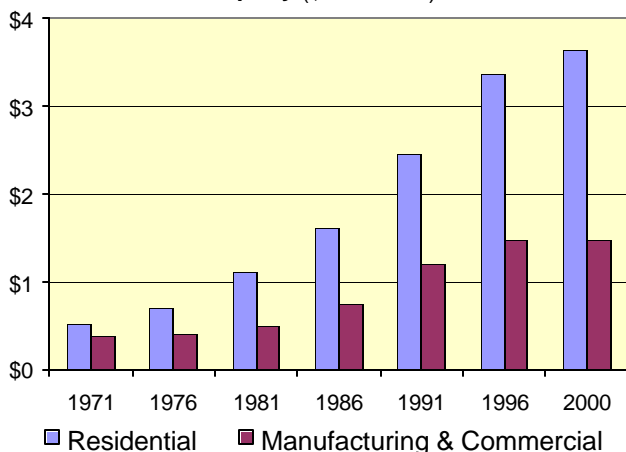


Chart 2 shows the amounts collected from these three taxes in fiscal years 1988-2001 and projected to 2003 under current law. From 1988 to the current year, individual income taxes rose 120%, and sales tax collections grew 105% -- both about five times the growth rate for corporate income taxes.

Property Taxes

Property taxes paid by corporations are difficult to estimate, since property tax records are not maintained by type of payer. It is possible to estimate the amounts of property taxes paid by businesses by comparing the taxes assessed against residential property to assessments against manufacturing and commercial property.

Chart 3. Property Taxes by Type of Property (\$ in billions)



Together these categories account for over 90% of property tax assessments.

Chart 3 shows the net property taxes assessed against these categories of property at 5-year intervals from 1971-96 and in 2000. Assessments increased over the period 1971-2000 in all categories as property values rose. However, the share of residential property in total assessments increased by nearly one third from 51% to 66%. The combined share from manufacturing and commercial property decreased about 27%.

These changes have two main causes—actions by the state legislature exempting classes of property from taxation, and changes in the relative amounts of property in use in the various categories. The Legislature exempted from taxation machinery, inventories and farmers’ livestock in the 1970s. These exemptions account for about \$30 billion in exempt value, or about 15% of all taxable value. The legislature also exempted computers and related equipment from personal property and ad valorem taxes starting in 1999. This change produced tax cuts for businesses of \$135 million in the 1999-01 biennium, and estimated at \$158 million in 2001-03.

Summary and Conclusions

The share of property taxes and state income taxes paid by corporations in Wisconsin has decreased very substantially:

- The share of total state taxes derived from the corporate income tax this year is expected to drop to 5.6% -- half its level in 1979.
- Under the Senate plan, the corporate income tax share would grow to 6.1% in 2003. That share would drop to 4.7% under the Assembly plan (assuming no other changes as it is phased in).
- Since 1988 corporate income tax revenue has increased just 22%, compared to 120% and 105% for individual income taxes and sales and use taxes, respectively.
- Between 1971 and 2000 the proportion of statewide property taxes from manufacturing and commercial property has fallen 27 percent. In 2000 residential property owners were assessed nearly 2½ times more property taxes than were commercial and manufacturing property owners.