

WISCONSIN BUDGET PROJECT

An initiative of the Wisconsin Council on Children and Families



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Wisconsin Taxes Hit Poor and Middle Class Much Harder than the Wealthy

Low- and middle-income families in Wisconsin pay a much higher share of their income in state and local taxes than do the richest families in Wisconsin, according to a new study by the Institute on Taxation & Economic Policy (ITEP).

“Wisconsin lawmakers may be forced to make difficult tax and spending decisions in the upcoming year,” said Matthew Gardner, ITEP’s executive director and lead author of the study, titled *Who Pays? A Distributional Analysis of the Tax Systems in All 50 States*. “They should be mindful that the Wisconsin tax system already falls more heavily on the very poorest families in the state.”

Wisconsin’s Tax Code: The Poor Pay More

When all Wisconsin taxes are totaled up, the study found that:

- Wisconsin families earning less than \$20,000 – the poorest fifth of Wisconsin non-elderly taxpayers — pay 9.2 percent of their income in Wisconsin state and local taxes.
- Middle-income Wisconsin taxpayers – those earning between \$35,000 and \$57,000 – pay 11.2 percent of their income in Wisconsin state and local taxes.
- But the richest Wisconsin taxpayers – with average incomes of \$1,116,000 – pay only 8.0% of their income in Wisconsin state and local taxes.

“No one would ever design an income tax with lower tax rates for the best-off taxpayers,” noted Gardner. “But that is exactly what Wisconsin’s tax system overall does: it allows the very wealthiest individuals to contribute less of their income, on average, than middle- and lower-income families must pay. In other words, Wisconsin has an unfair, regressive tax system.”

Wisconsin Sales, Excise, Property Taxes Hit Low-Income Families Hardest

The main reason for the unfairness of Wisconsin taxes is the state’s reliance on regressive sales and excise taxes, which fall disproportionately on the worst-off families, and on property taxes. The state’s one progressive tax, the income tax, is not enough to offset the unfair impact of these other taxes.

The ITEP analysis, which takes into account the most recent tax changes in each state, found that the poorest fifth of Wisconsin taxpayers pay 6.3 percent of their income for sales and excise taxes. That is seven times more than the richest one percent of taxpayers, who pay just 0.9 percent of their income for sales and excise taxes. Property taxes in Wisconsin are somewhat less regressive than sales taxes, with low and middle income taxpayers paying between 3.0 and 3.6 percent of their income for property taxes, compared to 1.7 percent for the richest one

percent of state residents.

Jon Peacock, research director of the Wisconsin Council on Children and Families, noted that the state's tax system was likely to fall even more heavily on low and middle income taxpayers over the next couple of years as state budget cuts reduce the funding available for property tax relief.

“Wisconsin lawmakers could make the state’s tax system fairer for low- and middle-income taxpayers by relying less on regressive sales, excise and property taxes, and instead restoring the state’s estate tax and eliminating income tax breaks that primarily benefit the wealthy, such as the preferential treatment of capital gains,” Peacock said.

The full report is available at <http://www.itepnet.org/whopays3.pdf> . Individual state fact sheets for this edition of Who Pays? are also available here: <http://www.itepnet.org/whopays.htm>.

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