

S/L Finance, Wis. (Smith)

Wisconsin Aid & Shared Taxes

by Public Expenditure Survey of Wisc.

1. Wisconsin is the only state which devotes more than $1/2$ of expenditures to local subventions
 - also largest giver of undesignated grants
2. Shared taxes
 - A a) income
 - b) utility (including telephone + R.R.)
 - c) highway privilege
 - d) liquor
 - B ~~Deduct~~
 - a) ~~amount for administration~~
 - b) ~~school aid~~
 - c) ~~teacher's retirement~~
 - C New law shared on gross basis
 - a) local share of corporate income tax would be 49% as opposed to 60% of net as formerly
 - b) local share of individual's income tax 33% ~~from 40%~~ ^{present}
 - $5/6$ to city, village or town ^{of residence}
 - $1/6$ to county
 - D utilities tax
 - 15% to State 65% to city, town or

village of origin, 20% to county
to local unit is 50% in proportion
to value of property and 50% in
accordance with business trans-
acted in each locality
in counties under 50,000, 50%
goes to school districts

E Telephone tax 15% gross to
state 85% to towns on gross
receipts allocable to their facilities

F If all property of heat ^{light} & power co
is located entirely in one taxing
district property is assessed & taxed
locally

G state keeps $1\frac{1}{2}$ net collection
distributes rest by population to
towns.

3 state aids

A Tax credits

1. personal property tax relief
2. general property credits

Wisconsin's State + Local Tax Burden

U of W

Study is dated, material was perhaps used in recommending tax changes of 1961. Shows:

1) higher taxes paid by manufacturing related to various manufacturing statistics for 6 states in our locale.

Table 6
p 15

- initial impact on manufacturing in Wisconsin "substantially higher" than in surrounding state
- can be at least in part shifted

- absolute amount reduced because of deductibility of state taxes for federal corporate income tax purposes

- corporation with \$8.97 per \$1,000 of value-added difference between Wis. + six state average, after federal deductibility, only \$4.74

- also Wisconsin's tax spendings may benefit corp. that locates here (greater returns for tax dollar)

- Wisconsin relatively low-debt state
- "tax discriminates between profitable + no-profit firms in tax burden
- 2 yr. carry forward of business losses

- manufacturing^{property} in Milwaukee is taxed at a rate some 28% above that prevailing elsewhere in the state
 - 1/4 of state's manufacturing activity is located in the city of M
 - 1958 27.1% of the full value assessment of state's manufacturing property located in M
 - 1958 43.1% in M.C.
 - 1958 42.3% of manufacturing employees in M.C.
 - shared taxes to M. = only 15.7% of city's property tax levy
 - amount to 21.4% of total property tax collection in suburban^{M.C.}
 - M.C. receives only about 16% of total state aids while it contributes over 36% of taxes collected & retained by state
- when non-tax sources of revenue are also considered + when outlays are related to income, Wisconsin is only slightly above the median of all states though still significantly higher than 4 of 6 surrounding states

Tax Burden (2)

- public debt per capita in Ill. & Ohio are almost 2X Wisconsin
- tax on farmers in line with neighbors
- utilities & "other businesses" median
- "All evidence points to the conclusion that Wisconsin's taxes on manufacturing are substantially higher than those imposed in most other states." p 33
- for nearly 40 yrs corporate income tax has been a 7% top rate
- "The contention that economic growth in Wisconsin or elsewhere has been considerably affected by tax differentials has not been established by creditable evidence."

p 35

II Tax Distribution

A Taxes with an initial impact on individuals

1. personal income tax
2. inheritance & gift taxes
3. registration & license fees
4. property tax on owner-occupied dwellings
5. hunting & fishing licenses

ultimate burden is assumed to be borne by those who initially pay

B Taxes with consumer-tax characteristics

initial impact on business concerns

1. excise taxes - cigarettes, liquor, malt beverages + allomargarine, gasoline, utility insurance premiums (related to individuals in above cases)

C Business cost + profit taxes

1. real + personal property taxes
 2. motor fuel, vehicle registration
 3. unemployment compensation ^{income}
 4. insurance, corporate + personal (inc-inc) tax
- thought business cost taxes shifted forward
 - profits taxes paid by taxpayer
 - land used in business (non-farm) assumed to fall entirely on owner of land (taxes on goods in fixed supply can't be shifted, is capitalized)
 - farmers are unable to shift as much of their tax burden as are other types of businesses (lag in profit from industry)
 - 1/4 of payroll tax assumed shifted back to wage earner ($\uparrow K$ for L)
 - monopolistic ability to shift part of profit tax $\rightarrow \uparrow$ price

Tax Burden/3

D Tax Exporting

1. federal tax offset

in effect $\frac{1}{2}$ the corporation's state tax bill is paid by federal gov (assume 50% rate)

2 tax questionnaire showed $\frac{1}{3}$ of stock holders were out-of-state residents so $\frac{1}{3}$ of tax burden of corporate profits are exported

3 80% of Wis. manufacturing output is sold to non-resident buyers
59% of retail sales are made out of state
50% of farm output sold beyond Wis border

4 overall estimate $\frac{1}{5}$ of total state & local tax burden shifted either to federal gov. or out of state stockholders or consumers

E Percentage distribution of excise tax p. 51 Table 5

F Effective rates by income groups
Tables 7 & 8 p 54-5 concept of income defined p. 47 cases A & B explained p. 48

- suggests that tax structure tends to be regressive in lower income range, fairly proportional in middle income and progressive

in upper ranges

- technically regressive up to about \$10,000
- actually to \$3,000 using broad concept of income

STUDY IS BEFORE SALES TAX

- figures indicate that those in the under \$1,000 income class have a substantially heavier state & local tax burden than any other class (Effects of SST?) ^{PERMANENT income?}
- effective rate on those over \$10,000 income class is lower than rate on those under \$3,000 p 60
- Wisc. state + local tax system is on the whole less regressive than most other states. 61

III Individual Income Tax

1. adopted 1911 on 10-20-70 basis S-C-Ct.
2. 1925 changed to present 40-10-50
3. normal rate structure range $\frac{1}{4}\%$ to 13 brackets from 1932
4. however surtax revenue, which accrues to state (none shared with local gov'ts) used extensively since 1919 (when 100% surtax for soldiers' bonuses)

TAX BURDEN (4)

- 5 in 17 of past 28 yrs. + 6 of last 10 used (1959) surtax with rates from 20 to 100%
- 6 only 3 of 28 states using income tax imposed higher rates than did Wis. for income of \$5,000, Wis 7th for incomes of \$3,000, 1st of \$25,000
- 7 above is preference as to kind of tax preferred (less intense use of alternate sources of tax revenue)
- 8 Wisconsin uses greatest range (except Minn + N. Dakota where effective top is lower)

IV Property tax rates

- 1 1916 - 1959 average state rates p. 124 show rates higher in post war period than at present
- 2 property values also rising 9.
- 3 property taxes in Wis. are relatively high + state relies on it more than most
- 4 70% of personal property in Wis. general property tax was 16% in '58
manufacture's stocks (goods in process & tools etc.) constituted almost 1/2 of taxable personal property
inventories over 1/2 personal property tax base
\$68 M in 1957 uneven distribution

- 5 rough estimate property taxes
run 25% of gross shelter rents
- 6 evidence indicates housing
occupies a larger place in budgets
of small than in large tax
payers (hence regressive)

Northwestern Mutual Life Insurance Co.
↓

John D. Hogan - Sources of Revenue to meet Expanding Local Needs: Structural Reform of Local Government '62 to Taxation Conference

1. The Nature of Metropolitan Urbanism
 - a. "fractionalizing the fisc" - Green
 - b. basic problem is structure of political power

another general Rotary Club-type speech
good general data on growth of municipal areas

TAX REVISION by Business Executives Research Com. 1962

1. The 1961 Wisconsin Legislature passed a comprehensive piece of tax legislation designed to provide property tax relief and to improve the state's "climate" for industrial development
2. Table I gives % property tax relationships 1929-1960, to total taxes, personal income, full value
3. need for relief found in Wisconsin's burden relative to owner's income was 50% higher than regional & national averages
 - a) total ~~tax~~ industrial tax burden was from 33 to 44% above the regional and national levels
 - b) farm tax relief from 136% increase in property tax burden relative to declining postwar farm income
4. law reduced: by 50% personal property tax on manufactures, and merchant inventories & farm livestock
 - : about 10% on the average in real estate taxes from level otherwise would have been

5 cuts to be made up in higher
income tax & sales tax (selective)

SMITH

Alan H. Smith - State-Local Financial Relationships, A Study of Shared Taxes and Aids in Wisconsin 1960 *Marquette*

1. shared tax taps more effectively tax base by employing superior collection machinery of the state
2. grant-in-aid need have no reference to the tax base of receiving govt but maybe paid to supplement that tax base so far as it is inadequate
3. shared tax gives "what belongs to local gov already" while grant is money obtained elsewhere
4. Aid to local gov. by state

a) nationwide

1942	- 39.1	70
1952	34.7	36.8
1957	34.7	

b) Wisconsin

1942	64.5	70
1952	58.9	
1957	56.3	

c) Wisconsin in 1957 was 5th in per capita grants \$64.11

1. over 1/3, \$25.19 are un earmarked payments for general local gov. support
2. 9% of local budget pd. by state - Wis. ranks 9th

d. most states with low income, hi proportion of state aid, Wisconsin hi income large state aid to loc gov.

e. Wisc. differs from general practice in hi proportion of its grants which are not based on need

1. in other states grants based on need 12X as big as other not on need
- 2 in Wisc. only 1 1/2 X.

5 general view is that matched federal grants favor wealthier political units

6 most states give educational grants based on needs & fiscal ability

7 in 1957 N.C. spent less on education highways & public welfare than average of rest of state, (in relation to taxable property)

a) specific aid system discriminates against NC which spends less (90) on above which are areas of greatest state aid

b) on per capita basis gross expenditures for county is 17% higher than NC after is 32% higher

8 Equalizing effect of state payments on loc gov.
a before 31% dispersion b) after 19% dispersion
in net expenditures (county)

Growth (2)

9 Equalization effects of educational grants to in Wisconsin

- a) flat rate of grant per pupil dependent on level of education given
- b) based on cost of education and a "guaranteed valuation" per pupil

1. $g.v. = \$23,000$ grades 1-8
2. state pays difference
3. Taxpayers pay on actual valuation
4. progressive

10 Highway aids

- a) "The system must be one of the most complicated ever thought up"
- b) grants have positively unequalizing effect
- c) there is no equitable distribution according to needs or fiscal ability
- d) "system appears to be completely indefensible"

11 Public welfare

- a) mostly local responsibility
- b) to give categorical grants tied to federal funds

- 12 Increasing local expenditures
a) by 1970 gap at present rates of
~~\$84~~ M. year if expenditures
increase $\rightarrow$ \$,00 - 150 M

- 13 M.C. receives 60% of tax on
incomes arising within its
boundaries

a) the Citizens' Governmental
Research Bureau estimated in 1957-8
M.C. contributed 52.6% of
revenues used to run the state
government

b) gives \$43,472,000 gets \$19,107,000
paid out \$24,364,000 (1957-8)

c) per capita expenditures rise
once get much above 50 persons
per sq. mile so if aids based
inversely on population won't
be fair to very densely populated
counties

B Suggested reforms

1. imp't of long-view rather than
more patch work
2. propose parity between shared taxes & aids
3. types of payment
a) sliding scale due to varying

density of population applied to counties

b) equalize property tax collection
 $\frac{1}{4}$ (average for state - county) = subsidy

c) shared taxes

4 by using objective measure of need
encourage local autonomy in local gov.

C Assumptions

1. locality should serve own needs first (undefined needs) + only then contribute to needs of others
2. aids should bear relation to ^{fiscal} ability
3. prime objective of aids the maintenance of sound local autonomy
4. no radical quick change acceptable

D Findings

1. state will pay larger share of increased local costs
2. payments should continue about equally grants + shared taxes