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Tax Burden Analysis Sorely Needed

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A thorough analysis of our state and local tax burden -- a tax incidence study -- is badly needed in Wisconsin today. A report on our tax burden would not provide all of the fiscal policy answers we're searching for as a state, but it would inject some accurate data into the upcoming budget deficit discussions.

Such a study would include a breakdown of our various taxes and fees and would show us how much different income groups pay, tax trends, anomalies in our current tax structure and how significant various exemptions and exclusions have become. As far as rankings go, we need a clearer view of how our recent tax cuts have affected our tax burden relative to other states, particularly in the Midwest. No such study, at least a current one, now exists. The last Wisconsin incidence study was conducted by the Department of Revenue in 1979, the one before that in 1959. Our economy has changed radically since 1979, and 1959 seems like a different world.

Even tax rankings from 1999 -- still cited by some organizations -- are out of date and misleading. For this, the Department of Revenue should make use of the most recent data from the U.S. Census Bureau. And it should commit to regularly updating the study, perhaps every two years.

Other states do this, or close to it. Our neighbor Minnesota, which recently completed such a comprehensive incidence study of itself, is a case in point. Wisconsin should catch up.

Right now, we are often flying without an authoritative and accepted record of our overall tax burden or the share carried by different income groups. This is a lousy basis for making new policy affecting both.

To be sure, the Department of Revenue and the Legislative Fiscal Bureau release numerous reports on state and local fiscal issues. But there remains no single source that policy-makers and the public can turn to for answers to critical questions about who actually pays the taxes in Wisconsin -- at least none from an impartial source.

Without that shared knowledge base, it's very easy (as we've seen over the past several years) for discussions of taxes to descend to campaign rhetoric, interest group spin and the simplistic taxes-are-too-high-in-Wisconsin mantra. This begs many questions, distorts consideration of others, and degrades political decision-making on how we propose to pay for government.

A careful incidence study will involve substantial, though hardly prohibitive, upfront costs. But this is one of those areas where investing in the right data really pays off, especially since making policy based on inaccurate data is much more costly. Biennial updates after this work is done would not cost much, keeping the basis of policy-making current without burdensome cost.

Of course, to be really useful in policy, an incidence study has to be as free from politics in its own design as possible. We favor a design approved by some collection of state taxation experts at the university, working with folks at the Department of Revenue. We would expect the study, like any careful incidence study, to be explicit on its assumptions, and to give its results and estimates under a variety of competing assumptions or scenarios.

None of this is rocket science. It can be easily enough done. And the bottom line is that we have nothing to lose from obtaining reliable, timely tax data -- and a lot to gain.

Anyone interested in the fiscal health of the state, and an intelligent policy debate on how to repair it, should be calling for a tax incidence study, with the loudest call perhaps coming from those newly elected to public office.

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