

Basic Facts about Wisconsin's Sales Tax

Institute for Wisconsin's Future—July 2009

Bottom line:

- The sales tax can be counted on to produce a minimum of \$800 million annually for each percentage point.
- With a combination of economic recovery and already enacted broadening of the sales tax base (involving Internet and software sales), annual revenues could approach \$900 million (for each percentage point) quite soon.
- Additional broadening of the tax base, such as including some services, would further add to sales tax revenue.
- The sales tax is unquestionably regressive. But relatively simple techniques are available to offset this regressivity by using income tax credits funded with some portion of increased sales tax revenue.
- Wisconsin is a relatively low sales-tax state and the sales tax has been providing a declining share of state General Purpose Revenue, which does leave room for increases.

Sales tax revenues:

- Attached are three charts to illustrate sales tax revenues
 - Chart 1 shows actual sales tax revenues for the past 20 years. You can see increases every year until 2009, when the recession's impact was clear. The chart includes Legislative Fiscal Bureau estimates for the next two years.
 - Chart 2 is much better because it adjusts for inflation. You can see that inflation-adjusted revenue has been basically flat since 2000, a combination of recessions and the growing role of tax-exempt services.
 - Chart 3 shows the proportion of GRP revenue that comes from the sales tax. It is clear that revenues have fallen since 2002 as a share of GPR.
 - Even with recent declines in sales tax revenue, there is no reason to think revenues will fall below the \$4 billion level (in inflation-adjusted dollars).

History and development:

- Wisconsin was late in adopting a sales tax, enacting it in 1962 after about forty other states had already done so.
- The original rate in 1962 was 3%. It went to 4% in 1969 and to 5% in 1982. The rate has not changed since then, 27 years.
- Counties may enact a sales tax up to 0.5%. Sixty-one (of 72) counties have it.
- There are four special sales tax zones with additional rates: Miller Park (baseball), 0.1%; Lambeau Field (football), 0.5%; Midwest Center in Milwaukee ("local exposition center"), and Wisconsin Dells ("premier resort area").

- Technically, it is called the sales and use tax. But the “use tax” is a technical term relating to some out-of-state purchases. It’s easiest just to say “sales tax.”
- In 2000, a state surplus led to a sales-tax rebate to taxpayers of \$688 million.
- Retailers keep 0.5% of sales tax collections to cover their costs.

Comparisons with other states:

- Wisconsin is a low sales-tax state, according to the most recent Census Bureau data (2006):
 - Wisconsin’s 5% rate is lower than the rate in 27 other states.
 - Wisconsin’s rate is lower than all its neighbors: Illinois, 6.25%; Iowa 6.0%; Minnesota 6.875%; Michigan 6.0%.
 - Twenty-eight percent of total revenue for Wisconsin state and local government came from sales tax, 37th highest among the states.
 - Total sales tax revenue was 2.3% of state total income, 33rd highest among the states.
- Wisconsin is generally in line with neighboring states in terms of what is subject to the tax and what is not, with these exceptions:
 - Iowa taxes many more services than does Wisconsin
 - Illinois taxes groceries and prescription medicines, which Wisconsin doesn’t
 - Minnesota exempts clothing, which Wisconsin taxes

Sales tax and property tax relief:

- Sales taxes have in the past, but not now, been a source of funds for property tax relief.
 - The original 1962 tax sent \$55 million to local government aid, but this was soon eliminated.
 - When the rate went to 5% in 1982, the new one percentage point went to school property tax relief, but this was eliminated in 1984.

Sales tax base—what’s included and what’s not:

- The sales tax is imposed automatically on physical goods purchased at retail, unless specifically exempted by law. New physical products are therefore automatically taxed unless specifically exempted.
- The sales tax does not apply to services, unless specifically cited as taxable in legislation. New services are therefore automatically tax-free unless specifically legislated otherwise.
- Groceries and prescription medicines are exempt, as they are in most (but not all) states
- Specific services are by statute subject to the tax, including:
 - Hotels and similar lodgings
 - Admissions to events

- Telecommunication services, including cable TV, cell phones, and Internet access
- Laundry and dry-cleaning (except coin-operated)
- Photography services
- Parking of vehicles, including autos, boats and planes
- Installation, repair and maintenance of personal property (but not improvements to homes and buildings)
- Landscaping and lawn maintenance
- The list of exemptions to the sales tax is long. Attached are tables summarizing the exemptions (and the estimated value of the exemptions), taken from the 2009 *Summary of Tax Exemption Devices* prepared by the Departments of Revenue and Administration.

Recent changes to the sales tax:

- In 2009, Wisconsin joined the national Streamlined Sales Tax effort, designed to standardize definitions of products—but not to standardize rates—to hasten the day when all Internet and mail order sales are taxed
 - Estimates vary on how much Wisconsin would gain from full taxing of Internet sales, but it might be up to \$300 million annually and growing.
- As part of the changes involved in joining the Streamlined Sales project, Wisconsin changed definitions of “custom software” to once again make those products—primarily expensive software packages for business—subject to sales tax. This undid the so-called *Menasha* ruling in 2008 by the state Supreme Court, which made custom software exempt from sales tax.

Sales tax and tax progressivity/regressivity:

- There is no doubt that sales taxes are regressive, in that people with lower incomes spend a larger percentage of their income on the tax than do people with higher incomes
- This was most recently confirmed for Wisconsin by the 2004 *Wisconsin Tax Incidence Study* prepared by the Department of Revenue.
 - For example, the study estimated that in 2001, the poorest 20% of households paid between 3.3% and 4.0% of income in sales tax. The top 1% of households, by contrast, paid between 1.5% and 1.9%.
- There are various ways to offset the regressivity.
 - One method, used in some states, is to use a refundable income tax credit available either only to people below a certain level, or as a declining credit as income rises.
 - Another method would be to increase funding for the Homestead Tax Credit, which has been severely degraded in value because of the effect of inflation on the three parameters used to determine the size of the credit.
 - Details on either of these methods can be calculated if needed.

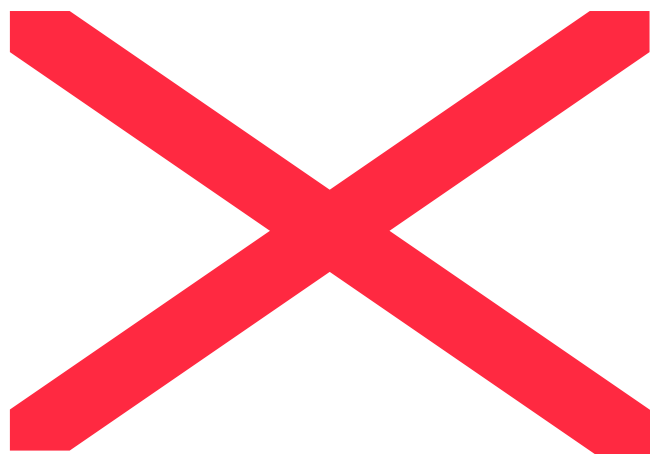
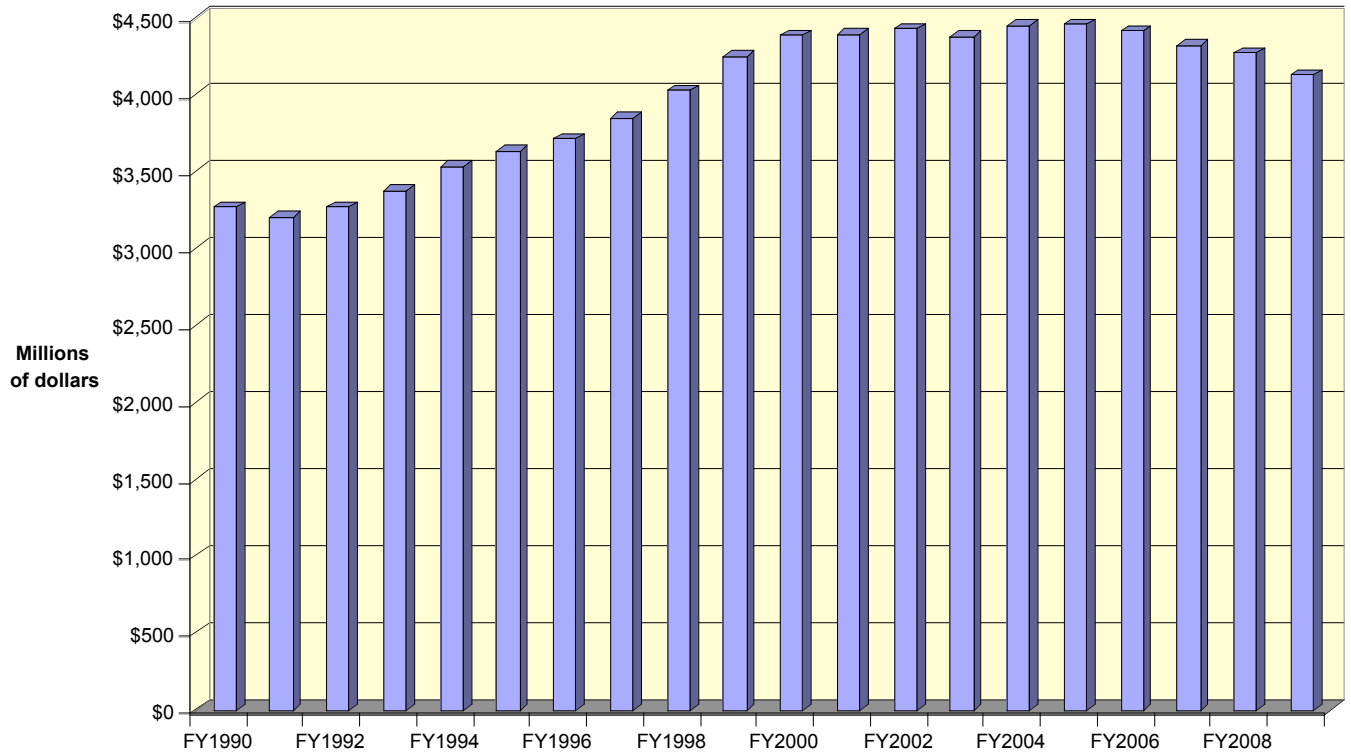


Chart 1 shows actual sales tax revenues since FY1990. You can see increases every year until 2009, when the recession's impact was clear. The chart includes Legislative Fiscal Bureau estimates for the next two years, including an economic recovery by FY2011. It seems clear that \$4 billion (equal to \$800 million for each percentage point) is a bottom and that sales tax revenues can safely be estimated to exceed that in the future.

Chart 2: Inflation-adjusted sales tax revenue (in 2009 dollars) FY1990 - FY2009



Source: Legislative Fiscal Bureau

Chart 2 is much more accurate than Chart 1 because it adjusts for inflation. You can see that inflation-adjusted revenue has been basically flat since 2000. This is the result both of recessions and the growing role of tax-exempt services.

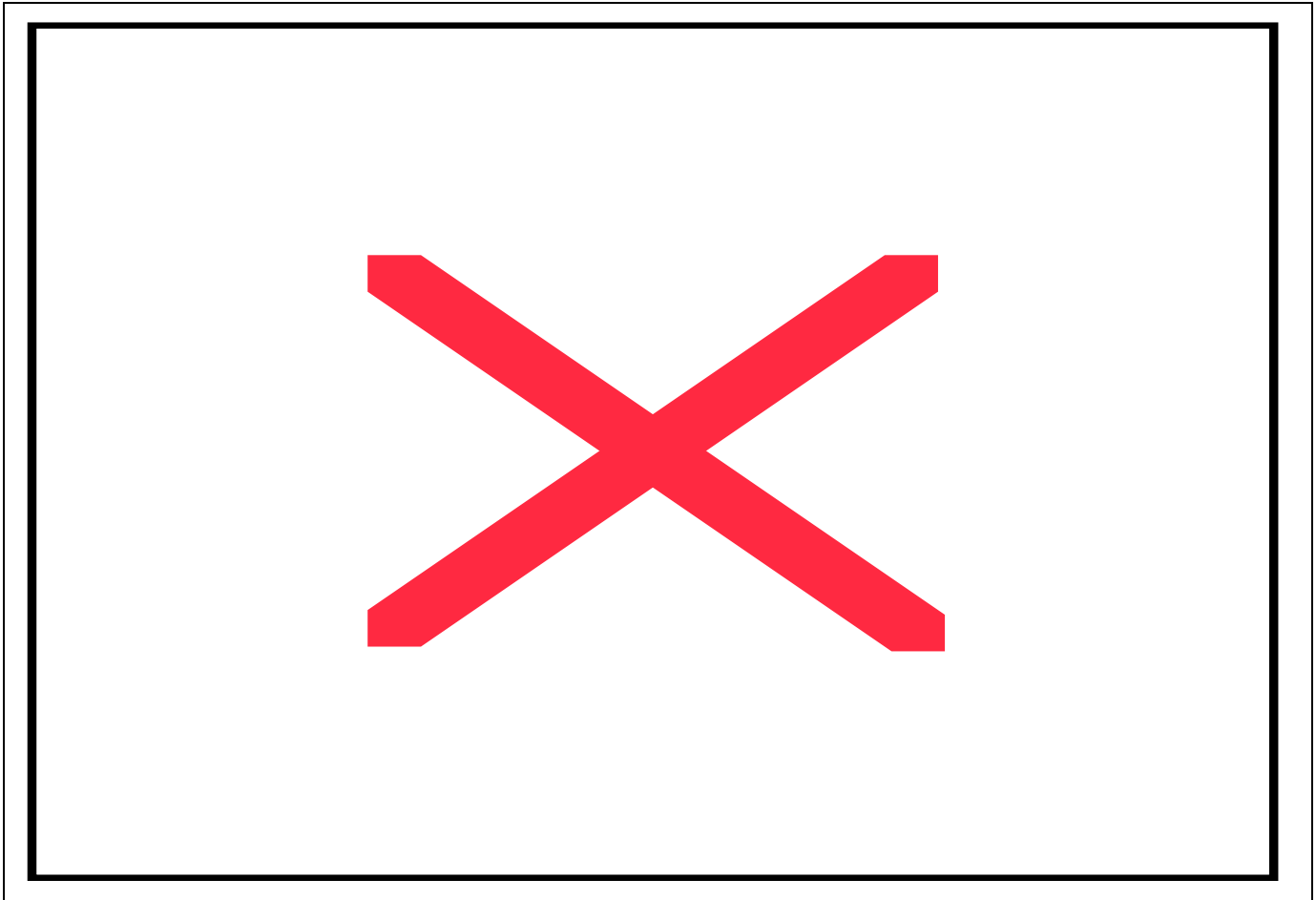


Chart 3 shows the proportion of General Purpose Revenue that comes from the sales tax. It is clear that revenues have fallen since 2002 as a share of GPR. For example, if sales taxes in FY2008 would have been 35% of total GPR, as they were in 2001-2005, it would have meant an additional \$300 million.

Sales and Use Tax

SERVICES NOT SUBJECT TO TAX

Services are exempt from sales tax unless the statutes specifically impose the tax. Data are not available to estimate of the total cost of **TABLE 3 SALES AND USE TAX EXEMPTION SERVICES** certain services that are not subject to sales tax and provides an estimate of the **SUMMARY** fiscal effect. The table does not include services that are specifically exempted from tax by law and discussed in previous sections, such as coin-operated laundry services, diaper services, veterinary services for farm animals and labor services in construction.

**TABLE 3 SALES AND USE TAX EXEMPTIONS-
SERVICES**

Exemption	FY08 Fiscal Effect
Personal and Recreational Services	
Beauty, Barber, Nail and Other Personal Care Services	\$29,800,000
Funeral Services, excluding Caskets and Vaults	10,100,000
Dues and Fees Paid to Business Associations and Fraternal Organizations	11,600,000
Health Clubs	12,600,000
Admissions to Educational Events and Places	7,100,000
Veterinary Services for Pets	19,200,000
Auto and Travel Clubs	3,900,000
Professional Services	
Services of Physicians, Dentists and Other Health Professionals	558,500,000
Legal Services	135,600,000
Architectural, Engineering, Testing Laboratory and Surveying Services	84,500,000
Accounting Services	50,500,000
Tax Preparation Services	5,800,000
Business Services	
Computer Services (inc. data processing and custom programming)	101,100,000
Management, Scientific, and Technical Consulting Services	76,200,000
Scientific Research and Development Services	28,700,000
Employment Placement Services	5,000,000
Advertising – Development and Placement (excludes Public Relations)	54,700,000
Public Relations	3,600,000
Credit Rating and Collection Services	7,000,000
Investigation and Security Services	19,500,000
Services Related to Real Property	
Commissions to Real Estate Brokers	43,400,000
Repair of Real Property	43,300,000
Interior Design	2,600,000
Janitorial Services	26,100,000
Disinfecting and Exterminating	3,200,000
Sewerage Services	27,500,000

GOODS NOT SUBJECT TO TAX

TABLE 2 SALES AND USE TAX EXEMPTION DEVICES SUMMARY,

Exemption	Statutory Reference*	FY08 Fiscal Effect
Exemptions for Property Sold Primarily to Households		
Food, Food Products, and Beverages	Sec. 77.54 (20) and (20m)	\$598,000.000
Meals Furnished by Institutions of Higher Education	Sec. 77.54 (20) (c) 5.	4,900,000
Water Sold Through Mains	Sec. 77.54 (17)	19,500,000
Fuel and Electricity for Residential Use	Sec. 77.54 (30) (a) 1. and 2.	154,500,000
Biomass Used for Residential Fuel	Sec. 77.54 (30) (a) 1m.	Minimal
Manufactured Homes and Mobile Homes Used as Primary Housing	Sec. 77.51 (4) (b) 6. and 7., (15) (b) 5 and 6, 77.54 (31)	600,000
Motor Fuels	Sec. 77.54 (11)	577,000,000
Newspapers, Periodicals and Shoppers Guides	Sec. 77.54 (15)	15,600,000
Caskets and Burial Vaults	Sec. 77.54 (21)	4,100,000
U.S. and State of Wisconsin Flags	Sec. 77.54 (46)	Minimal
Coin-Operated Laundry and Dry Cleaning Services	Sec. 77.52 (2) (a) 6.	1,300,000
Cloth Diapers and Diaper Services	Sec. 77.51 (1m) and (3m), 77.52 (2) (a) 6. and 77.54 (40)	Minimal
Gun Club Admissions and Membership Fees	77.52 (2) (a) 2. b.	Unavailable
Exemptions Related to Health Care		
Prescription Drugs and Medicines (excluding Insulin)	Sec. 77.54 (14)	157,200,000
Insulin and Equipment Used in the Treatment and Testing of Diabetes	Sec. 77.54 (14m) and (28)	12,500,000
Medical Devices (inc. Wheelchairs, Home Oxygen Equipment)	Sec. 77.54 (14s) and (22)	13,600,000
Meals Provided by Nursing Homes, Community-Based Residential Facilities and Hospitals, and Food Sold in Retirement Homes	Sec. 77.54 (20) (c) 4.	Not available
Exemptions Related to Farming		
Tractors and Farm Machinery	Sec. 77.54 (3) (a)	27,500,000
Personal Property and Supplies Used in Farming	Sec. 77.54 (3m)	158,000,000
Electricity Used in Farming	Sec. 77.54 (30) (a) 3.	8,800,000
Fuel Used in Farming	Sec. 77.54 (30) (a) 5.	13,500,000
Veterinary Services and Medicines for Farm Livestock	Sec. 77.52 (2) (a) 10. and 77.54 (33)	6,900,000
Semen for Livestock Breeding	Sec. 77.54 (27)	2,700,000
Milkhouse Supplies	Sec. 77.54 (34)	5,800,000
Certain Products Using Alternative Energy, Including Methane	Sec. 77.54 (56) Effective 7/1/09	-0-
Exemptions Related to General Business		
Machinery and Equipment Used in Manufacturing Fuel and Electricity Used in Manufacturing	Sec. 77.54 (5) (d) and (6) (a)	173,000,000 90,500,000
Tangible Personal Property Consumed in Manufacturing	Sec. 77.54 (2)	Not available
Component Parts of Shoppers Guides, Newspapers and Periodicals	Sec. 77.54 (2m)	Not available
Catalogs and Catalog Envelopes	Sec. 77.52 (2) 11., 77.54 (25) and 77.54(25m) Effective 4/1/09	-0-
Fuels Converted to Electric Energy, Gas or Steam by Utilities	Sec. 77.54 (6) (c)	Not available
Waste Treatment Facilities and Machinery and Equipment Used in Recycling	Sec. 77.54 (5) (c), (26) and	Not available

Sales and Use Tax

TABLE 2 SALES AND USE TAX EXEMPTION DEVICES SUMMARY,
continued

Exemption	Statutory Reference*	FY08 Fiscal Effect
<p>Exemptions Related to General Business, continued Equipment Used in the Production of Maple Syrup Wood Residue Used as Fuel in a Business Activity Building Materials, Equipment and Supplies Used in the Construction of Professional Sports Stadiums Live Game Birds and Clay Pigeons Trucks, Tractors, Buses and Other Vehicles Sold to Common or Contract Carriers Rolling Stock Used in Railroad Operations Commercial Vessels and Barges Containers, Labels, Sacks, Cans, Boxes and Other Packaging and Shipping Materials Motion Picture and TV Film and Advertising Materials Restaurant Employee Meals Tangible Personal Property Purchased for Resale but Donated to a Nonprofit Organization Use of Prepaid Telephone Cards and Authorization Numbers Broadband Equipment for Rural Areas Sales to Affiliated Companies</p>	<p>Sec. 77.54 (29) Sec. 77.54 (30) (a) 4. Sec. 77.54 (41) Sec. 77.54 (47) Sec. 77.54 (5) (b) Sec. 77.54 (12) Sec. 77.54 (13) Sec. 77.54 (6) (b) Sec. 77.54 (23m) Sec. 77.54 (20) (c) 4m. Sec. 77.56 (3) Sec. 77.54 (46m) Sec. 77.51 (6m) & 77.54 (48) Sec. 77.54 (49)</p>	<p>Minimal 170,000 Not available 200,000 33,000,000 2,200,000 Minimal Not available 13,400,000 Not available Not available 0 2,500,000 Not available</p>
<p>Exemptions for Government Agencies and Nonprofit Organizations Sales to the Federal Government and Its Agencies Sales to State and Local Governments and Schools Religious, Charitable, Scientific and Educational Organizations Lunches and Other Tangible Personal Property Sold by Elementary and Secondary Schools Admissions to Elementary and Secondary School Activities Admissions to State Parks and Camping Fees Admissions to Certain Historical Museums Admissions to County Fairs Volunteer Fire Department Equipment Copies of Public Records Sales by American Legion Baseball Teams Snowmobile Trail Grooming Equipment Charges for 911 and E-911 Emergency Telephone Systems Sales of Animal Identification Tags and Samples by the Department of Agriculture, Trade and Consumer Protection Public Benefits Fees One-time License or Right to Purchase Admissions to Professional Football Games Motor Vehicles Loaned to Driver Education Programs Nonprofit Cemetery Associations Home Exchange Services</p>	<p>Sec. 77.55 (1) Sec. 77.54 (9a) (a)-(em), (g) and (h) Sec. 77.54 (9a)(f) Sec. 77.54 (4) Sec. 77.54 (9) Sec. 77.54 (10) Sec. 77.54 (10) Sec. 77.52 (2) (a) 2. Sec. 77.54 (16) Sec. 77.54 (32) Sec. 77.54 (35) Sec. 77.54 (38) Sec. 77.51 (15) (b) 7. and 77.54 (37) Sec. 77.54 (42) Sec. 77.54 (44) Sec. 77.54 (45) Sec. 77.56 (2) Sec. 77.54 (9a) (i) Effective 7/1/09 Sec. 77.54 (54)</p>	<p>Not available 340,000,000 156,000,000 10,300,000 900,000 900,000 23,000 Not available Minimal Minimal Not available Minimal 2,000,000 57,000 9,200,000 Minimal Minimal -0-Minimal</p>
<p>Exemptions for Nonresidents and for Use in Other States Interstate Commerce Property Used in Wisconsin by Nonresidents Nonresidents' Boats Berthed in Boundary Waters Nonresidents' Aircraft Hangared in Wisconsin</p>	<p>Sec. 77.54 (1) Sec. 77.53 (17) Sec. 77.53 (17m) Sec. 77.53 (17r)</p>	<p>Not available Not available Not available Not available</p>

Sales and Use Tax

TABLE 2 SALES AND USE TAX EXEMPTION DEVICES SUMMARY,
continued

Exemption	Statutory Reference*	FY08 Fiscal Effect
Exemptions for Nonresidents and for Use in Other States, continued		
Property Purchased for Use Outside the State	Sec. 77.55 (3)	Not available
Aircraft, Motor Vehicles and Truck Bodies Sold for Use Outside the State	Sec. 77.54 (5)(a)	Not available
Property Sold to Out-of-State Common or Contract Carriers	Sec. 77.55 (2) and (2m)	Not available
Printed Advertising Material Used Outside the State	Sec. 77.54 (25)	Not available
Temporary Storage of Printed Materials	Sec. 77.54 (43)	Not available
Definitional and Miscellaneous Exemptions Exemptions That Further Define Retail Sales Labor Input into Construction Trade-Ins and Lemon Law Refunds Transportation Charges Occasional Sales Auction Sales Retailer's Discount	See text Sec. 77.51 (4) (c) 4. and 77.52 (2) (a) 10. Sec. 77.51 (4) (a) 3., (b) 3m. and (15) (b) 4m. Sec. 77.51 (4) (b) 5. and (15)(b) 3. Sec. 77.54 (7) and (7m) Sec. 77.51 (9) (e) Sec. 77.61 (4) (c)	Not available 695,000,000 113,000,000 Not available Not available Not available 24,600,000

* References are to the 2005-06 Wisconsin Statutes. **EXEMPTIONS FOR PROPERTY SOLD PRIMARILY TO HOUSEHOLDS Food for Home Consumption** Sales of food, food products and beverages purchased for home consumption are exempt from sales tax. However, items such as candy, soda water beverages, beer, wine and liquor are taxable. Sales of food, food products and beverages from vending machines are treated as exempt sales for home consumption. When exempt food items are packaged with taxable items, the package is exempt if at least 50% of the price is attributable to the exempt items. Food for direct consumption on the premises, such as meals sold in restaurants, cafes and cafeterias, are taxable.

Sources:

Wisconsin Legislative Fiscal Bureau, Informational Paper #6, *Sales and Use Tax*.

Wisconsin Departments of Revenue and Administration: *Summary of Tax Exemption Devices*.

Wisconsin Department of Revenue: