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The Wisconsin State Sales Tax

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Abstract

In addition to income taxes, which were discussed in my previous brief, the other main source of general purpose revenue for the state of Wisconsin is the general sales tax. The state sales tax rate has been set at 5% since 1982, with the majority of counties in the state levying an additional 0.5% tax. The general sales tax exempts most services and a number of goods from taxation. Some of these goods, like gasoline, are subject to their own dedicated tax, while many, like groceries, are untaxed. I estimate that currently just under half of consumption in the state is subject to the general sales tax, a share which has increased in recent years with the taxation of online shopping. In recent years, state general sales tax revenue has been less than 2% of personal income in the state, averaging around \$1,800 annually per household. While income taxes in Wisconsin remain on the higher end of the distribution of state tax rates across the country, Wisconsin sales taxes are on the low end. This is especially true when considering combined state and local sales taxes, where according to the Tax Foundation, Wisconsin ranks 43rd highest in the United States.

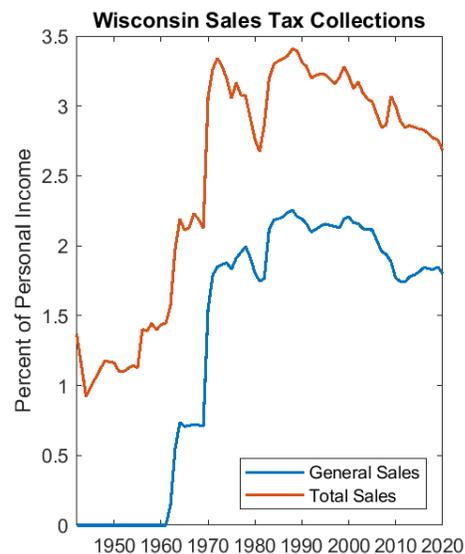
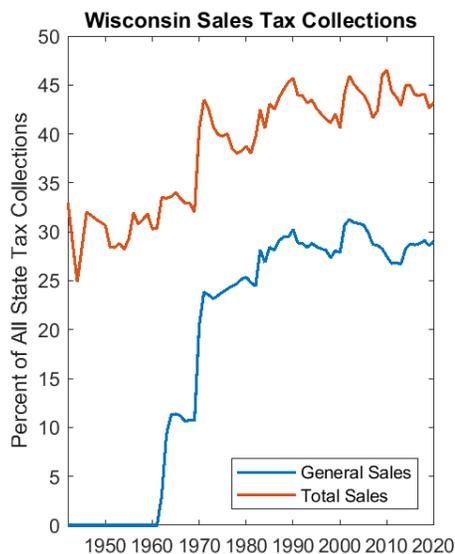
1. The Wisconsin Sales Tax

While I focus on the Wisconsin general sales tax, the state also levies other selective sales taxes, including dedicated taxes on motor fuel, tobacco, alcoholic beverages, and public utilities, among others. Wisconsin first introduced a “sales and use” tax in 1962 at a rate of 3%, but previously the state had employed other specific sales and gross receipts taxes. In 1969 the base of the sales tax was broadened to something close to the current system, and the current 5% tax rate was set in 1982. (Department of Revenue, 2021.)

The general sales tax exempts many categories of purchases. Services are generally exempt from the sales tax, except for a limited number of specified types. Other major exemptions from the general sales tax include (Department of Revenue, 2018):

- Food and food ingredients, except candy, soft drinks, dietary supplements, and prepared food.
- Motor fuels subject to excise taxes.
- Prescription drugs, corrective eye glasses, hearing aids, wheelchairs.
- Purchases by state, local, and federal governments and their agencies.
- Purchases by non-profit hospitals, schools, charitable organizations.
- Manufacturing raw materials.
- Machinery and equipment used exclusively and directly in manufacturing.
- Certain products used in the business of farming, such as seeds, fertilizer, and pesticides.
- Certain vehicles sold to common carriers, such as aircraft, trucks, and trailers.

While the sales tax applies to many business-to-business transactions, both the standard theory of tax incidence and empirical results from historical sales tax changes show that consumers bear the burden of sales taxes (see Poterba (1996), for example).



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Figure 1: Wisconsin sales tax collections as a percentage of all state tax collections (left panel) and as a percentage of total state personal income (right panel), including state general sales tax (blue) and total sales taxes (red), which include selective sales.

Figure 1 shows that since the increase of the sales tax rate to 5% in 1982, the general sales tax has accounted for roughly 30% of state tax revenue, while total sales taxes have amounted to about 45% of revenue. The right panel of the figure shows that the general sales tax has accounted for about 1.8% of total state personal income over the past decade, down from about 2.2% from the 1980s through the early 2000s.

Changes over time in sales tax revenue are driven both by shifts in consumption between taxable and exempt goods, as well as changes in overall consumption. The left panel of Figure 2 plots the Wisconsin sales tax base (sales tax revenue divided by 5%) as a percentage of state personal consumption expenditure. Here I make the standard incidence assumption that sales taxes levied on business purchases are passed on to Wisconsin consumers.¹ The figure shows a large decline in the taxable share of consumption from 56% in 2000 to less than 43% in 2010. This was driven both by a shift from consumption of goods to consumption of services (which are generally exempt from the sales tax), as well as growth in online sales, which were largely untaxed prior to the Wayfair decision in 2018. Since 2010, the taxable share of consumption has increased, hitting nearly 49% in 2020 due to increased goods consumption during the pandemic.

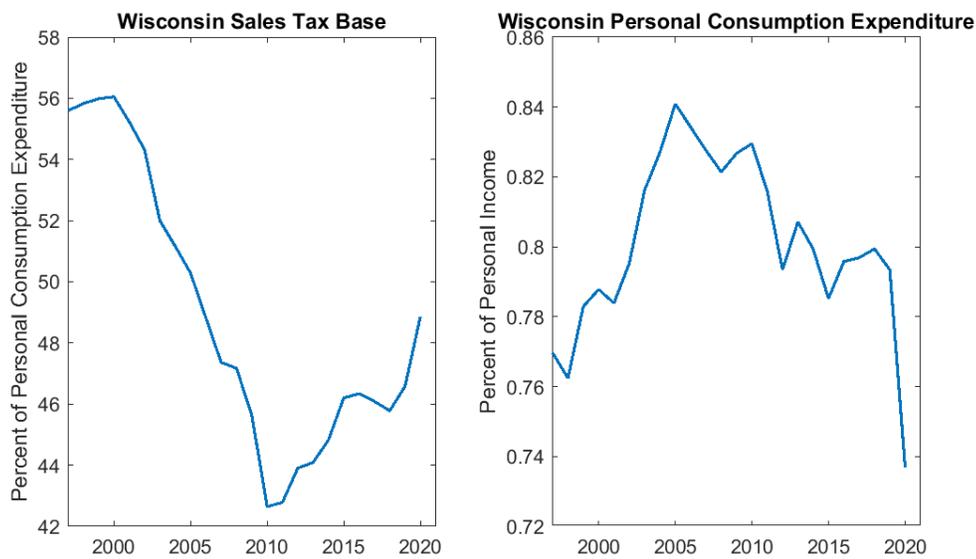


Figure 2: Wisconsin general sales tax base as a percentage of personal consumption expenditure (left panel), and Wisconsin personal consumption percentage of total state personal income (right panel).

¹ This calculation also implicitly assumes that all sales taxes in the state fall on domestic consumers, but some Wisconsin consumers make purchases out-of-state, and some out-of-state consumers pay sales Wisconsin sales tax when they make purchases in the state. I assume these net out.

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The right panel of Figure 2 shows personal consumption expenditure as a percentage of personal income in Wisconsin. Here we see that the consumption share of income fell from 84% in 2005 to around 79% over the past decade. The declining consumption share reconciles the fact that while the taxable share of consumption has risen in recent years, we saw above that sales taxes as a share of income has been relatively stable over the past decade. In the pandemic year of 2020, personal income increased (largely due to fiscal transfers) while personal consumption fell (especially in services), so the consumption share of income dropped by 6 percentage points. More recent data has shown both a reduction in transfers and a rebound in consumption, so the large drop and low share of income consumed in 2020 was an anomaly.

To compare magnitudes of the sales and income taxes, I use 2019 data to be consistent with the income tax data described in my previous brief. Wisconsin state general sales tax revenue in 2019 totaled \$5.695 billion. Dividing by the state population of 5.822 million gives per capita sales taxes of \$978, while using the 3.132 million tax filers as the base gives \$1,818 in sales taxes for an average household (tax unit). This latter number compares to the \$2,639 in income taxes per household.

2. Comparison to Other States

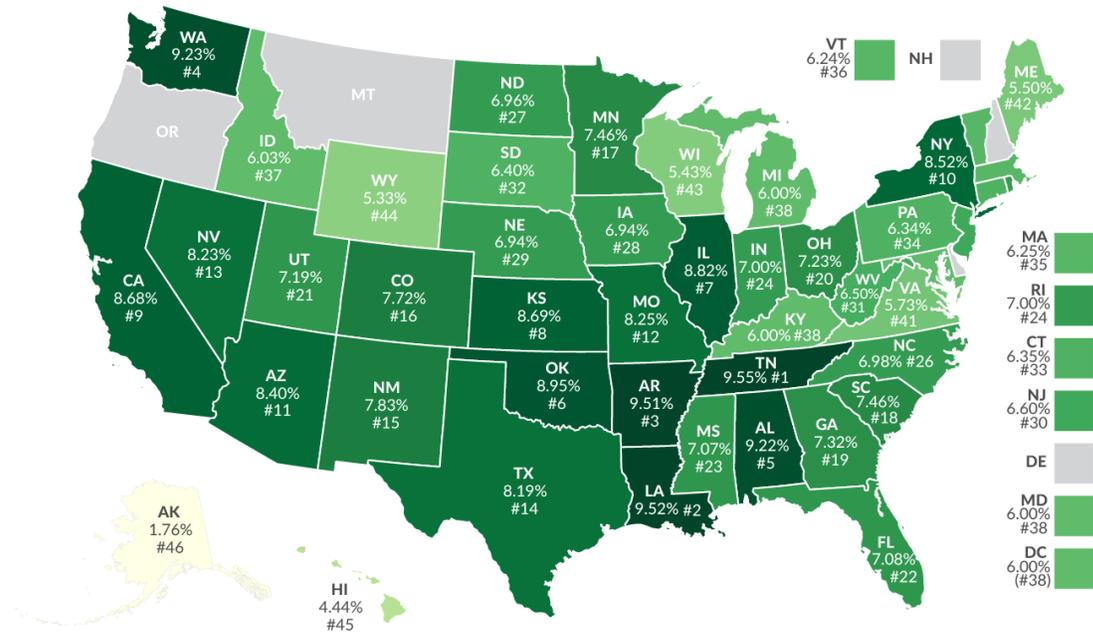
In addition to the statewide general sales tax, Wisconsin state law allows counties to impose an additional 0.5% local sales tax. Currently, 68 of the state's 72 counties do so. Nonetheless, the combined state and local sales tax rates in Wisconsin put the state on the lower end of the national distribution. According to the Tax Foundation (Cammenga, 2021), Wisconsin's state sales tax rate of 5% puts the state 33rd highest of the 45 states with a sales tax. But including the comparatively low local taxes, Wisconsin's combined state and local sales tax rate of 5.43% is 43rd highest, or third lowest of the states that have a state sales tax. The distribution of combined sales tax rates is shown in Figure 3, from Cammenga (2021). By comparison, Missouri's state sales tax rate is lower than Wisconsin at 4.225% but its local sales taxes average over 4%, so the combined state and local rate is 8.25%.

In broad terms, this brief and the previous one document that Wisconsin has a relatively high state income tax rate, particularly at the top end, and a comparatively low state sales tax rate, particularly when accounting for combined state and local rates.

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How High are Sales Taxes in Your State?

Combined State & Average Local Sales Tax Rates, January 2021



Notes: City, county and municipal rates vary. These rates are weighted by population to compute an average local tax rate. The sales taxes in Hawaii, New Mexico, and South Dakota have broad bases that include many business-to-business services. D.C.'s rank does not affect states' ranks, but the figure in parentheses indicates where it would rank if included.

Sources: Sales Tax Clearinghouse; Tax Foundation calculations; State Revenue Department websites

Combined State & Average Local Sales Tax Rates
Lower Higher

Figure 3: Combined state and local sales taxes across the United States. (Source: Cammenga, 2021).

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