



Wisconsin Taxpayers Alliance

401 North Lawn Avenue • Madison, WI 53704-5033
www.wistax.org • 608.241.9789 • fax: 608.241.5807

NEWS

Contact: Todd A. Berry or Dale Knapp
608.241.9789 or wistax@wistax.org
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Wisconsin Spends 40% of State Taxes and Fees on Property Tax Relief Questions Remain on Effectiveness of State Relief Efforts

MADISON—Last year, the state spent \$9.8 billion, or 40% of all state taxes and fees, to reduce property taxes. The spending included state aid to local governments, direct property tax credits on December tax bills, and selected income tax credits. A new report from the Wisconsin Taxpayers Alliance (WISTAX), “Wisconsin’s Many Forms of Property Tax Relief,” details amounts spent and explores the effectiveness of each type of relief. Now in its 85th year, WISTAX is a nonpartisan organization dedicated to public policy research and citizen education.

The state’s largest and oldest form of property tax relief is state aid to local governments. State aid as property tax relief originated in 1911 when the state (1) created the income tax, (2) exempted money and household goods from the local property tax, and (3) returned most income tax revenues to local governments to replace lost property tax revenues. In 2016, the state sent \$8.1 billion in state taxes and fees to local governments through a variety of aid programs, the largest being \$4.97 billion of K-12 school aids. Other major state aid programs include county and municipal aid (\$747 million), transportation aid (\$657 million), and aid to technical colleges (\$514 million). Without that aid, at current service levels, local property tax rates would be nearly double the current average of about \$21 per \$1,000 of full-market property value.

Growth in state aid has slowed significantly in recent decades. During 1996-2001, aids to local governments rose 35.7% due largely to an \$860-million jump in school aids in 1997. Growth slowed to 9.4% during 2001-06 and to 3.2% during 2006-11. State aids declined 0.4% during the five years ending in 2016.

To the taxpayer, the most visible form of property tax relief is the tax credits found on December property tax bills. Combined, the school levy credit, first dollar credit, and lottery credit totalled \$1.2 billion in 2016.

The state also provides several income tax credits tied to property taxes paid. The property tax/rent credit is available to nearly all taxpayers. The homestead credit is available to low-income homeowners, and the farmland preservation credit helps relieve farm property taxes. The three credits totalled \$528 million in 2016.

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The Wisconsin Taxpayers Alliance, founded in 1932, is the state’s oldest and most respected private government-research organization. Through its research, publications, civic lectures, and school talks, WISTAX aims to improve Wisconsin government through citizen education. Nonprofit, nonpartisan, and independently funded, WISTAX is not affiliated with any group—national, state, or local—and receives no government support.

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In addition to spending state tax dollars to ease the local property tax burden, the state also imposes tax limits on most local governments. Since 1994, K-12 schools have been under revenue limits that indirectly cap school property taxes. Municipalities and counties have operated under state-imposed levy limits since 2006. And since 2014, technical colleges have faced revenue limits similar to both the K-12 and municipal limits.

Considering the state's significant effort to limit property taxes, WISTAX researchers explored the effectiveness of each. Property tax limits are probably the most effective at limiting growth in levies. However, with property taxes the main funding source for local governments, they reduce local control over finances.

Property tax credits are effective at reducing the property tax "burden." However, they have no impact on the amount of property taxes levied by local governments, and, therefore, must continually increase to have the same effect. Critics also note that they mask the cost of local government. Further, the credits simply shift the costs of local government from local property taxpayers to state income and sales taxpayers throughout the state.

In dollars, the largest property tax relief program is the many state aids to local governments. The effectiveness of aid has been studied for decades, with similar conclusions: Some portion of the aid helps relieve property taxes, while some encourages added spending. A 2002 UW-Madison study found a \$1 increase in per capita shared revenues reduced per capita property taxes between 32¢ and 41¢. A 1979 Legislative Fiscal Bureau study found that for every \$1 increase in state school aid during 1960-78, about 69¢ went to reduce school levies and 31¢ subsidized new spending.

The WISTAX report, "Wisconsin's Many Forms of Property Tax Relief," is available now by visiting www.wistax.org; emailing wistax@wistax.org; calling 608.241.9789; or writing WISTAX at 401 North Lawn Ave., Madison, WI 53704-5033. □

(Editor's Note: An electronic version of this release is available at www.wistax.org.)