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Wisconsin Governor Scott Walker isn't promising big on tax cuts or reform, not yet, but one year out from his re-election bid he's talking big.

In an interview with the Milwaukee Journal Sentinel, Walker opened the door to a host of potential tax overhauls in his February 2015 budget, from eliminating or flattening the income tax to dropping technical colleges from local property tax rolls. Those changes could involve both outright cuts and shifts of income or property taxes onto the sales tax.

Adding to the tax talk from Republicans, Assembly Speaker Robin Vos of Rochester says he wants lawmakers to consider more modest tax cuts as soon as this spring if state tax revenue comes in strong.

But Walker said he also has learned from the failures of Republican governors pushing massive tax overhauls in Nebraska and Louisiana too quickly without laying the groundwork with voters.

Before making any radical changes, the Republican governor stressed, he's going to engage business leaders and the public using meetings, a website and other tools that he is likely to announce early next year. Until then, Walker said he wasn't committing to a plan or pledging to cut taxes in his next budget by the roughly \$650 million in income taxes he cut in this current two-year budget.

"I don't have any preconceived notion on this. It's not like I have one goal. The only goal is I want the overall tax burden to go down every year I'm in office....What we're trying to do is have these early discussions that aren't threatening," Walker said.

Despite that, even a mention of eliminating the income tax — the single-biggest

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the state's most vulnerable residents.

Dale Knapp, research director for the Wisconsin Taxpayers Alliance, noted that the wealthy pay disproportionately more of the state income tax and that the poor spend more of their earnings than the wealthy do. Both of those facts mean that high-income earners typically fare much better than the poor when the income tax is lowered and the sales tax is raised.

“That will be a big, big issue — regressivity,” Knapp said. “If you go this direction, you have to find a way to deal with low-income families and that issue.”

Other potential pitfalls in such a tax shift would include how it would affect state businesses such as retailers already struggling to compete with online merchants.

Even for supporters of the change, the practical challenges of eliminating the income tax are daunting.

Only seven states have no income taxes, with two more that have them on only interest and dividend earnings, according to the Federation of Tax Administrators. Those states often have some other source of revenue, such as oil and natural gas revenue in the case of Alaska and Wyoming, and typically offer fewer government services than Wisconsin.

“(It's) literally almost impossible to do unless you have some kind of transfer to the sales tax or something like that,” Walker said. “Our goal overall is to reduce the tax burden. You can do that, but you can only go so far unless you have some other change out there.”

Shifting isn't simple

Moving income taxes onto the state sales tax could simplify life for state residents

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Milwaukee County, according to the nonpartisan Legislative Fiscal Bureau. That would give Wisconsin the highest sales tax rate in the United States — an increase that could prove a large challenge for retailers, especially those near the state's borders.

Adding the state's \$990 million corporate tax onto the sales tax as well would bring it to 14.4%, or nearly twice as much as California's 7.5% rate, which currently tops the nation.

— There is another way to increase the sales tax by billions of dollars a year without raising the rate, by applying it to services and goods that now are exempted from the tax in Wisconsin. The exemptions range from food, electricity and health care to farming equipment, newspapers and a variety of services.

Broadening the sales tax to more services would bring it more in line with a modern economy in which consumers spend more on services than they once did and could provide more future growth to a tax that has seen only modest increases over the last decade. Ongoing efforts to have merchants apply the sales tax automatically to Internet sales could also provide more sales tax growth.

State officials could remove some sales tax exemptions and then combine that approach with a more modest increase in the rate.

But removing some of those exemptions would mean a higher cost for families and businesses for some common purchases even if the exemptions were left in place for basic needs such as food. That raises the issue once again of how the tax shift would affect low- and middle-income families.

The liberal Wisconsin Budget Project and the Institute for Taxation and Economic Policy analyzed the impact of simply transferring Wisconsin's income tax onto the

sales tax. The study found that, on average, that the bottom four-fifths of Wisconsin

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Jon Peacock, director of the budget project.

The analysis assumed that the state would retain its earned income tax credit, which can provide payments to some low-income workers filing a tax return even if they didn't pay any taxes. If the credit were dropped, then the impact on lower-income workers would rise even higher.

Walker spokesman Tom Evenson dismissed the premise of the analysis as false, saying that Walker hadn't actually proposed that. In his interview with the Journal Sentinel, Walker provided a number of potential tax changes, including reducing the state's income tax to a 3% or 4% flat tax without the various income brackets under the existing law.

Vos hopes for tax cuts

Vos, the Assembly speaker, said he appreciated that Walker was considering doing something dramatic with Wisconsin's taxes.

"I like leaders who think big and bold and don't start timid, because you don't get big and bold if you start timid," he said.

He said he saw value in significantly reducing or eliminating the income tax, but added, "I also don't want Wisconsin to have the highest sales tax."

This spring, Vos said he would like to pursue additional tax cuts if the state continues to generate a surplus. Those cuts would be more modest, such as eliminating the state's rarely used alternative minimum tax or creating a sales tax holiday proposed by Rep. Chad Weininger (R-Green Bay), perhaps during the back-to-school season.

Those ideas didn't excite Senate Minority Chris Larson (D-Milwaukee).

“I'd rather see us spend the money on education,” said Larson, who felt that better

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Walker also raised that idea. The technical colleges receive roughly \$800 million a year from local property taxes, an amount that works out to roughly an additional 1 percentage point on the state sales tax.

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State and Local Taxes

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