



Decrease in Tax Revenue Contributed to State Fiscal Difficulties

Revenue Solutions, in Addition to Spending Cuts, Are Needed

There are several reasons behind Wisconsin's very substantial budget deficit. The Governor and Legislature have focused on the role state spending has played in creating a biennial budget gap of \$3.6 billion. Curbing spending will need to be part of the solution to the budget deficit, but policymakers should not overlook the fact that a significant decrease in state tax revenue was a major contributor to the state's budget gap.

State tax revenues have plummeted with the recession. When figures are adjusted for inflation, Wisconsin experienced three straight years of declining tax revenue since fiscal year 2007. In order to employ a balanced approach in addressing the budget gap, policymakers should consider options to increase state revenues, or at least refrain from actively cutting revenue.

About the Numbers

Figures are taken from Legislative Fiscal Bureau documents and adjusted for inflation, with the rate for 2011 estimated to be 2.5 percent.

Tax Revenue is Just One Part of the Budget

In the 2009-11 biennium, the state appropriated \$65.8 billion. General Purpose Revenue made up

42.1 percent of that amount. The remaining appropriations use a variety of revenue, including the federal government, interest and investment income, charges for goods and services, and license and permit fees. Table 1 shows the breakdown of state revenue sources.

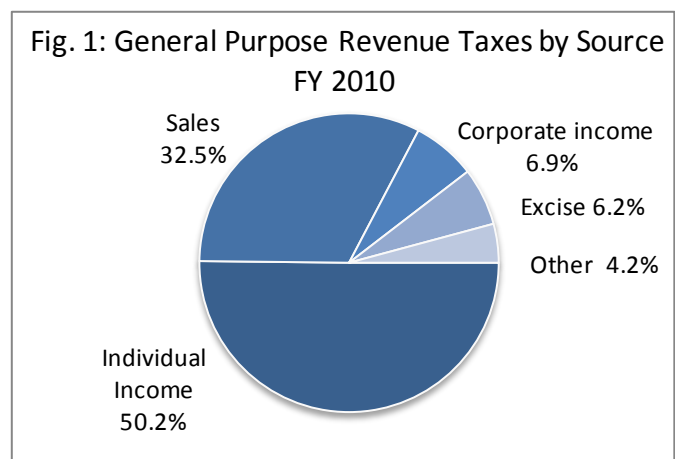
General Purpose Revenue Taxes

The biggest fund lawmakers can use when putting together the Wisconsin budget is called the General Fund, which contains General Purpose Revenue (GPR). As the largest and most flexible source of funds, this is where most of the attention is focused at budget time. This is revenue that supports our public K-12 schools, prisons, Medical Assistance programs, and university system.

Nearly all General Purpose Revenue comes from taxes. In fiscal year 2010, the state collected \$12.2 billion in GPR taxes.

Four separate taxes make up the bulk of this revenue. The individual income tax makes up half of GPR taxes, as shown in Figure 1, and the sales tax comprises nearly one-third. Corporate income tax makes up 6.9 percent, and excise taxes (tax on cigarettes and, to a lesser extent, alcohol) account for another 6.2 percent. Taxes on public utilities,

Fund Source	Amount (billions)	Percent of total
General Purpose Revenue	\$27.7	42.1%
Federal Revenue	\$18.2	27.7%
Program Revenue	\$8.7	13.2%
Segregated Revenue	\$7.6	11.6%
Subtotal	\$62.2	94.6%
Bond revenue	\$3.6	5.4%
Total	\$65.8	100%



insurance companies, and a few other minor sources make up the remaining 4.2 percent.

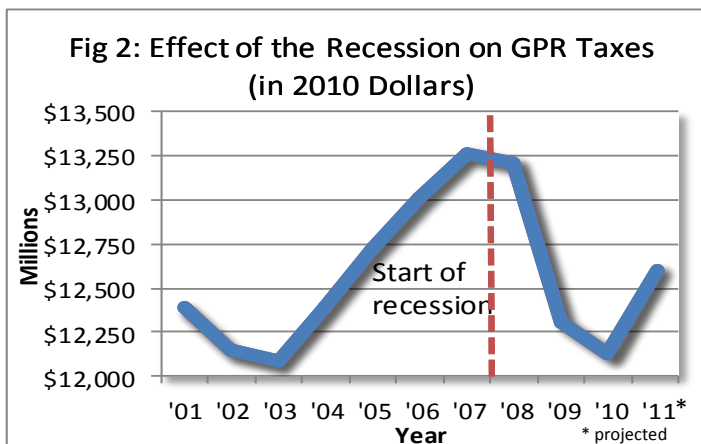
Revenues Fell Steeply During Recession

The national recession that began in December 2007 had a devastating impact on state tax revenues, both in Wisconsin and across the country. This downturn came after the state experienced several years of moderate, sustained increases in GPR taxes. Table 2 shows that GPR taxes increased by 7.1 percent over the three-year period between 2004 and 2007, in constant dollars.

Period	Change in GPR Tax Revenue
2004 to 2007	+7.1%
2007 to 2010	-8.6%

That increase (and more) was wiped out by the fall in GPR taxes between 2007 and 2010. The state collected over a billion dollars less in GPR tax revenue in 2010 than in 2007, when figures are adjusted for inflation. As the incomes of Wisconsinites fell, and as state residents limited their purchases, revenue collected from income and sales taxes fell as well.

Although the worst of the recession appears to be over, tax revenue has not recovered. Figure 2 shows that state revenue from GPR taxes fell for three straight years, from 2007 to 2010. The decline in revenue slowed in 2010, and is only beginning to turn upward again in fiscal year 2011 (as projected).



A portion of the current deficit stems from delayed tax cuts approved in previous legislative sessions that took effect this year. For example, a new ability for taxpayers to defer capital gains invested in certain business ventures begins this year, reducing revenue by an estimated \$50.0 million over the biennium.

Had the national recession not taken place and had GPR taxes instead followed the same trajectory as they did in the mid-2000s, Wisconsin would have no revenue shortfall in the upcoming biennium. If revenue from taxes had continued to grow at 2.5 percent above inflation rather than falling in 2007, the state would take in an additional \$3.6 billion GPR above current projections in the 2011-13 biennium. That amount of additional revenue would have closed the gap projected for the next biennium. Even if revenues had only grown by 1.25 percent above the rate of inflation, we would have had an additional \$1.6 billion in revenue over the biennium above what is currently projected.

The Future of Revenue

The national recession led to a steep decline in revenue, a loss from which the state has yet to recover. This loss, which was largely beyond the state’s control, has forced Wisconsin to curtail support for services important to our communities, such as K-12 education, health care, and assistance to counties and municipalities.

Wisconsin’s deficit grew earlier this year when the Legislature approved \$117 million in new tax breaks for businesses and higher-income residents during the Special Session. In addition, the Governor’s budget bill proposes another \$83 million in tax breaks for multistate corporations and investors.

Taxes can play a role in influencing decisions made by businesses and individuals about where to locate, but so can some of the things that those same taxes help support: a solid public infrastructure system, an educated population, and safe communities where employees want to live and work. If revenue is inadequate to support these necessities, our communities and our workforce may suffer.

Tamarine Cornelius
 March 2011, updated May 2011