CHAPTER 6

PROPERTY TAXES

Introduction

Wisconsin's property tax has been an object of perennial ire throughout the state's history. In most instances, the property tax was at least indirectly involved in major Wisconsin tax reform efforts, including the 1911 creation of the state's income tax, which was ostensibly put forward with the goal of reducing property tax burdens.

Though the property tax has grown in the last five decades, recent tax limitation reforms have put property taxes on a downward trajectory and should be allowed to continue to work. Statewide efforts at property tax reduction through an assortment of programs, such as shared revenue and special tax credits, have weakened the link between locally-provided services and their costs to citizens, meaning local services are now being financed at the state level. As a result, the state tax rates are now higher than they would otherwise be to finance the numerous revenue transfers to the local governments.

Wisconsin should continue to prioritize the full repeal of tangible personal property taxes, which are a relic of a bygone era.

However, there are some bright spots in Wisconsin's property tax system. The state generally forgoes distortive property taxes like intangible taxes, inventory taxes, and estate and inheritance taxes.

A General Overview of Wisconsin's Property Taxes

Property taxes are among the oldest forms of taxation and remain the most significant source of local government revenue in many states, Wisconsin included.

Once a significant state as well as local revenue tool, the property tax's current form is the product of many decades of evolution. Today, the property tax, primarily levied on land and improvements, serves as the single largest source of revenue for Wisconsin's local governments, accounting for 35 percent of all local revenues in 2016.[104]

Property taxes tend to be justified economically as a generally efficient form of taxation that raises revenue with a minimal effect on economic decision-making. Practically, they also enjoy a history as a well-established source of funding that is both familiar and not easily replaced.

104 U.S. Census Bureau, "2016 State & Local Government Finance Historical Datasets and Tables," https://www.census.gov/data/datasets/2016/econ/local/public-use-datasets.html.

Because real property is an immobile asset, tax competition and tax avoidance are less prevalent than they would be from other available tax options.[105] Further, while income taxes are known to discourage labor and investment, property taxes by contrast tend to be more economically neutral.[106]

Property taxes also come closer than most taxes to conforming to the benefit principle, an ideal in the public finance field that taxes paid should correlate with government benefits received. However imperfect, the value of one's property is a better proxy for the value of local services received than most alternative tax bases. For example, roads, utilities, police and fire protection, and local public amenities all increase or preserve the value of property, and, if supplied privately, would likely increase in worth with higher property values.[107]

Wisconsin's property tax system is even more neutral than other states due to a strong uniformity clause in the state constitution. As a result, taxes do not vary by type or use (with the exception of agricultural land), unlike in some other states, where different classes of property are assessed or taxed at different rates or assessment ratios (called split roll).[108]

Property Tax Collections

Wisconsin's property tax collections are on the high side nationally but have declined in recent years. In fiscal year 2015, state and local property taxes were $1,616 per capita, 14th highest nationally (Figure 6a). This number is higher than some nearby states but is a far cry from Illinois' collections of $2,087 per capita. It is further likely that Wisconsin will rank better on this metric once U.S. Census Bureau data catches up to the 2017 elimination of Wisconsin's statewide property tax levy.

Figure 6b shows property tax collections since 1960. Collections grew steadily from the 1980s until the Great Recession. Since 2009, however, property tax collections have fallen in real terms as tight property tax caps have started to control growth of the levy.

Property taxes are not just paid by individuals. Businesses, throughout the Badger State, pay property taxes on their land, their structures, and their tangible personal property (discussed later in this chapter). In fiscal year 2016, Wisconsin businesses paid an estimated $5 billion in property taxes to state and local governments.[109]

105 For a discussion of strategic competition in property tax regimes, see Jan K. Brueckner and Luz A. Saavedra, "Do Local Governments Engage in Strategic Property-Tax Competition?" *National Tax Journal* 54 no. 2 (June 2001), https://www.ntanet.org/NTJ/54/2/ntj-v54n02p203-30-local-governments-engage-strategic.pdf?v=%CE%B1&r=03589733876287937.

106 Bruce Wallin and Jeffrey Zabel, "Property Tax Limitations and Local Fiscal Conditions: The Impact of Proposition 2½ in Massachusetts," Lincoln Institute of Land Policy Working Paper, 2010, 4, http://www.lincolninst.edu/sites/default/files/pubfiles/1885_1200_wallin_zabel_wp11bw1.pdf.

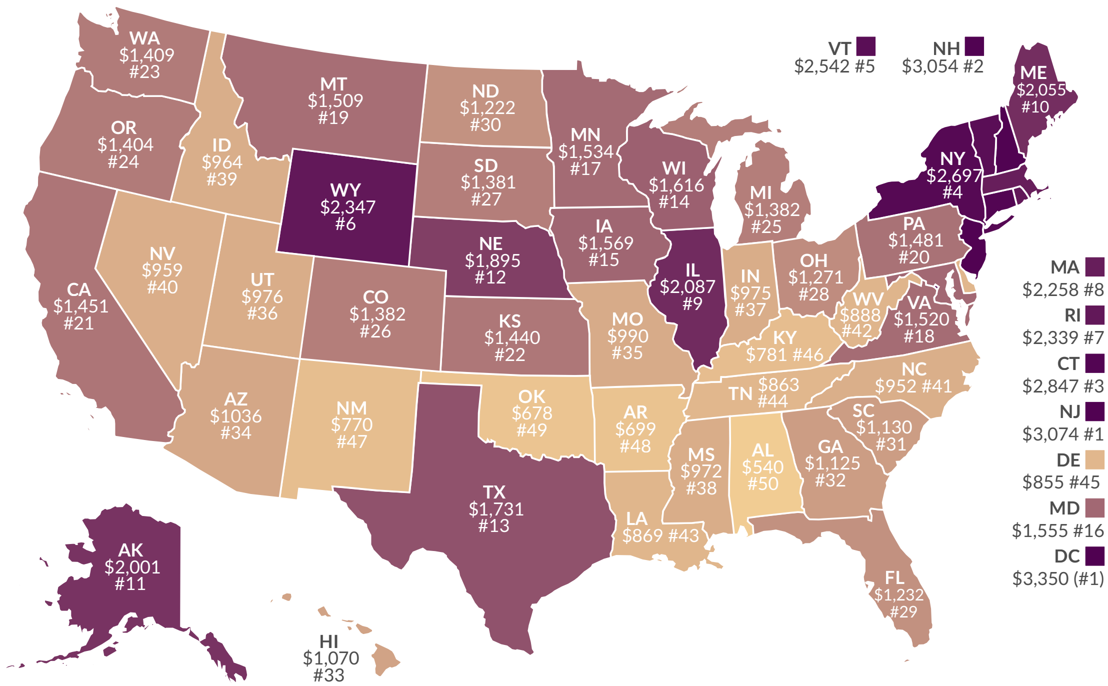
107 Ibid., 4-5.

108 Andrew Reschovsky, "Wisconsin: Significant Features of the Property Tax," Lincoln Institute of Land Policy, updated February 2018, http://datatoolkits.lincolninst.edu/subcenters/significant-features-property-tax/upload/files/tax_digest/WI_Feb_2018.pdf.

109 Andrew Phillips, Caroline Sallee, and Charlotte Peak, "Total State and Local Business Taxes: State-by-State Estimates for Fiscal Year 2016," State Tax Research Institute, Council on State Taxation, and EY, August 2017, Table 3, https://www.ey.com/Publication/vwLUAssets/ey-total-state-and-local-business-taxes-2016/$File/ey-total-state-and-local-business-taxes-2016.pdf.

FIGURE 6a.

State and Local Property Tax Collections per Capita, FY 2015



Note: D.C.'s rank does not affect states' ranks, but the figure in parentheses indicates where it would rank if included.

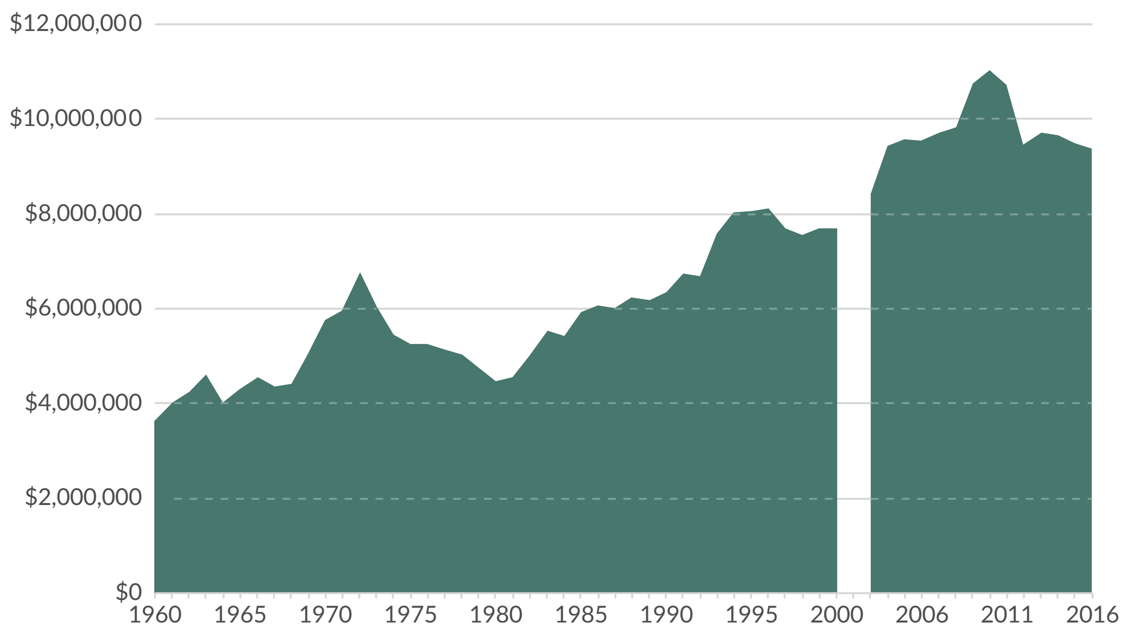
Source: Census Bureau; Tax Foundation calculations.

State & Local PropertyTax Collections per Capita

Lower Higher

FIGURE 6b.

Wisconsin State and Local Property Tax Collections, 1960-2016 (in Thousands of 2016 dollars)



Note: Dollar amounts are inflation-adjusted based on the annual average Consumer Price Index for All Urban Consumers (CPI-U) with a 2016 base year. Data for 2001 is not available.

Source: Census Bureau, *State and Local Government Finances*; Bureau of Labor Statistics, *Consumer Price Indexes* (All Urban Consumers).

Property Tax Structure

While tax collections are an important indicator for states, more important is the tax structure, including the tax base (what is taxed) and the tax administration (how it is collected). When accounting for these other items, Wisconsin ranks middle of the pack nationally.

In our 2019 *State Business Tax Climate Index*, Wisconsin performs well compared to neighboring states, ranking 21st on this component (Table 6a). Only Indiana scores better in the region (2nd), and Illinois ranks notably worse (45th). Notably, Wisconsin goes without some duplicative and distortive taxes on property used elsewhere, such as estate and inheritance taxes, taxes on intangible property, taxes on inventory, or capital stock taxes.

TABLE 6a.

2019 *State Business Tax Climate Index* Property Tax Component Rankings

Wisconsin and Neighboring States

State	Component Ranking
Wisconsin	21st
Illinois	45th
Indiana	2nd
Iowa	39th
Michigan	22nd
Minnesota	31st

Source: Tax Foundation, 2019 *State Business Tax Climate Index*.

State Mechanisms Aimed at Reducing Property Tax Burdens

Though the property tax is a local levy, disgruntled voters throughout the state's history have successfully lobbied state legislators to institute a host of state-run programs to try to reduce the property tax burden. While many programs involve using the state income tax, the state also delivers cash transfers to localities through its "shared revenue" program.

State-Provided Property Tax Credits and Programs

In response to high property tax burdens, Wisconsin allows a variety of credits against property tax liability, reducing both income and property taxes in relation to one's property tax bill. Unfortunately, such credits are often more effective at shifting or disguising tax burdens than actually reducing them.

When taxpayers are permitted a credit against income tax liability for property taxes paid, the state must impose higher income tax rates than it would otherwise. Wisconsin's levy limits (discussed below) constrain any impulse this might create for localities to raise property taxes knowing that state government will offset part of the burden, though this aid does have the effect of reducing incentives for local tax relief. Fundamentally, these credits represent a tax shift, with income and other state-level tax dollars used to provide tax reductions for property owners whose property taxes are ostensibly paying, at least in part, for local schools and local services associated with property ownership.

Wisconsin currently offers three credits against property tax burdens on individual income tax returns:

- the School Property Tax/Rent Credit, which provides taxpayers with a 12 percent credit up to $2,500 on their property tax liability against their state income tax liability (worth $412 million in 2017)[110];
- the Homestead Credit, an income tax credit available for property taxes paid by taxpayers below $24,680 in household income (worth $98 million)[111]; and
- the Veterans and Surviving Spouses Property Tax Credit, an income tax credit for disabled veterans or surviving spouses equal to the full amount of their property taxes on their primary residence (worth $25 million).[112]

110 Wisconsin Department of Revenue, "Summary of Tax Exemption Devices," February 2017, https://www.revenue.wi.gov/DORReports/17sumrpt.pdf.

111 Ibid.

112 Ibid.

Three further credits are applied directly against property tax liability:

- a School Levy Tax Credit, which reduces school district liability, with the state wholly reimbursing school districts for revenue lost to the credit ($940 million)[113];
- the First Dollar Credit, which apportions a grand total of $150 million among property owners to reduce their school district taxes by an average of $66 per return[114]; and
- the Lottery and Gaming Credit, a property tax credit available to taxpayers on their primary residence and funded by the state's lottery program (hence the name) for an average credit of $116 (worth $172 million statewide).[115]

State Aid in the Form of "Shared Revenue"

Another sizable linkage between the state and local governments designed in part to reduce property tax burdens is the "shared revenue" program. Originally conceived in 1911 in conjunction with the state income tax, the system today amounts to a significant transfer of state tax revenue to local governments based on special (often complex) formulas. Total disbursements in 2017 were $822 million to counties and municipalities, $668 million of which went to municipalities and $154 million to counties.[116] Shared revenue distributions represent the fourth largest appropriation in the general fund budget, after school aid, medical assistance, and the University of Wisconsin system.[117]

Wisconsin's shared revenue system is intended in part to equalize tax bases across the state. As designed, the system favors local governments with higher per capita expenditures and can undercut localities' incentive to attract industry or prioritize economic expansion. Like the aforementioned credits, it reduces property tax burdens—in this case by providing an alternative revenue stream—by shifting a greater share of tax collections to the state level.

Removing Items from Property Tax Funding

In other cases, the state has explicitly removed expenditures from local property taxes. In 2014, the state legislature provided $406 million in funding to the Wisconsin Technical College System to finance technical colleges throughout the state.[118] Previously, they had been funded by local property taxes.

113 Wisconsin Department of Revenue, Division of Research and Policy, "State School Levies Credit," Nov. 30, 2018, https://www.revenue.wi.gov/DORReports/schlevcredit.pdf.
114 Wisconsin Department of Revenue, Division of Research and Policy, "First Dollar Credit," Nov. 30, 2018, https://www.revenue.wi.gov/DORReports/fdc.pdf.
115 Wisconsin Department of Revenue, Division of Research and Policy, "Lottery and Gaming Tax Credit," Nov. 30, 2018, https://www.revenue.wi.gov/DORReports/ltrycr.pdf.
116 Wisconsin Department of Revenue, Division of Research and Policy, "County and Municipal Aid," Nov. 19, 2018, https://www.revenue.wi.gov/DORReports/munico.pdf.
117 Wisconsin Legislative Fiscal Bureau, "Shared Revenue Program," January 2003, 1, https://docs.legis.wisconsin.gov/misc/lfb/informational_papers/january_2003/0018_shared_revenue_program_shared_revenue_and_county_mandate_relief_informational_paper_18.pdf.
118 Wisconsin Legislative Council Act Memo, "2013 Wisconsin Act 145, Income Tax Rates and Technical College District Revenue," March 26, 2014, https://docs.legis.wisconsin.gov/2013/related/lcactmemo/act145.

Levy Limitations

Wisconsin property taxes levied by school districts, municipal governments, and county governments are subject to strict limits on revenue growth, essentially only permitting collections to rise with voter approval.

A limit on total revenue growth for school districts applies to the sum of state aid and property taxes and has been in effect since 1993. Initially, the legislature set the permissible increase each year, but a zero percent policy has now been made permanent. If state aid increases, property taxes must decline, and they can only increase if state aid declines. Total revenues may only increase if voters adopt a referendum that overrides the levy limit.[119] Between 2002 and 2012, 599 override referenda were held across the state, 47.6 percent of which were approved. In some cases, voters were faced with several override options on the same ballot; of the 483 times voters were asked to override revenue limits, they approved at least one override 54.9 percent of the time.[120]

Municipal and county governments have a relatively new levy (or revenue) limit, which has been in effect since 2005. This levy limit applies only to the property tax (and not state aid), requiring that increases in property tax levies do not exceed the increase in property values from new construction. This cap limited revenue growth to 1.71 percent in 2015.[121]

Levy limits tend to be more economically efficient than other forms of property tax limitations, like assessment and rate limits. Assessment limits, designed to keep individual property owners' tax burdens from rising, can introduce significant distortions, with similarly situated properties subject to radically different tax burdens. They also influence decisions about whether to improve or sell a property, decisions which are unaffected by a levy limit.[122] Unlike a rate limit, moreover, levy limits are not easily circumvented by local governments. Wisconsin's levy limits are strict and over time lead to a reduction in property tax burdens in real terms unless voters authorize an increase.

Consequences of Property Tax Relief Measures

Property taxes are among the more economically neutral taxes, demonstrating a much smaller influence on economic decision-making than most alternative modes of taxation.[123] As an immobile asset, tax competition and tax avoidance activities arising from property taxation are less pronounced than they would be from other available tax options.[124] At the margin, income taxes discourage labor and investment and may induce inefficient efforts at avoidance. Many other taxes pick winners and losers by favoring or disfavoring a range of economic activities. Property taxes, by contrast, tend to be more

119 Andrew Reschovsky, "Wisconsin: Significant Features of the Property Tax," 3.
120 Lindsay Amiel, Jared Knowles, and Andrew Reschovsky, "The Political Economy of Voter Support for School Property Taxation," Lincoln Institute of Land Policy, June 2016, 4, https://www.lincolninst.edu/sites/default/files/pubfiles/wp16la1.pdf.
121 Andrew Reschovsky, "Wisconsin: Significant Features of the Property Tax," 3.
122 See generally, Jared Walczak, "Property Tax Limitation Regimes: A Primer," Tax Foundation, Apr. 23, 2018, https://taxfoundation.org/property-tax-limitation-regimes-primer/.
123 Jens Matthias Arnold, Bert Brys, Christopher Heady, Heady, Åsa Johansson, Cyrille Schwellnus, and Laura Vartia, "Tax Policy for Economic Recovery and Growth," *The Economic Journal* 121, no. 550 (Feb. 1, 2011).
124 For a discussion of strategic competition in property tax regimes, see Jan K. Brueckner and Luz A. Saavedra, "Do Local Governments Engage in Strategic Property-Tax Competition?"

economically neutral.[125] While property taxes are not always popular, reforms to more economically destructive taxes, such as individual and corporate income taxes, should be the first priority in Wisconsin.

Property taxes also come closer than most other taxes to passing the benefit test, whereby taxes paid roughly correlates with benefits received. However imperfect, the value of one's property is a better proxy for the value of local services received than most alternative tax bases. More than at other levels of government, local services often align closely with property and property values. Roads, utilities, police and fire protection, and local public amenities all increase or preserve the value of property, and, if supplied privately, would likely increase in worth with higher property values.[126] If, therefore, aggressive property tax limitations drive localities to shift to alternative revenue options, or extensive state credits and offsets increase reliance on less competitive state-imposed taxes, the net economic effect may be negative.

Personal Property Taxes

Wisconsin exceeds many of its peers in limiting the reach of outmoded taxes on tangible property, though there remains work to do. Over the years, the tangible personal property tax has declined in importance as a source of revenue, and it is ripe for elimination.

Tangible personal property is anything that can be touched and moved. It differs from real property, which is land, buildings, and fixtures. The two property tax classifications also differ in that real property taxes are taxpayer-passive, meaning that an assessor mails the taxpayer a completed return which they pay, and personal property taxes are taxpayer-active, meaning that the taxpayer must fill in the return themselves, tallying all their personal property and calculating its depreciation according to a schedule. Real property tax returns are entered into the public record, while personal property tax returns are kept confidential.[127]

Historically, personal property taxes were levied throughout the country, including on homestead property like the refrigerators and couches in peoples' residences. Ostensibly, auditors could enter a taxpayer's home to inspect these personal effects and determine their assessed value. Unsurprisingly, this intrusive application of personal property taxes to homestead property was highly unpopular, and the practice went virtually extinct nationwide as income and sales taxes came into more frequent use following the Great Depression.[128]

125 Bruce Wallin and Jeffrey Zabel, "Property Tax Limitations and Local Fiscal Conditions: The Impact of Proposition 2½ in Massachusetts," Lincoln Institute of Land Policy Working Paper, 4.

126 Ibid., 4-5.

127 Wisconsin Department of Revenue, "2019 Guide for Property Owners," 11, https://www.revenue.wi.gov/DOR%20Publications/pb060.pdf.

128 Joyce Errecart, Ed Gerrish, and Scott Drenkard, "States Moving Away From Taxes on Tangible Personal Property," Tax Foundation, Oct. 4, 2012, https://taxfoundation.org/states-moving-away-taxes-tangible-personal-property/. It should also be noted that some states do still apply personal property taxes to nonbusiness vehicles, and that those taxes are widely reviled. See Jared Walczak, "Jim Gilmore's Car Tax Repeal Plan, 18 Years Later," Tax Foundation, July 30, 2015, https://taxfoundation.org/jim-gilmores-car-tax-repeal-plan-18-years-later/.

Though states forgo taxes on homestead personal property, taxes on business personal property remain common, even though they fit uncomfortably within a modern tax code. A 2012 study found that 32 states employ business personal property taxes to some degree, though many, including Wisconsin, have sought to reduce their reliance on the tax type in the last 20 years.[129]

Taxes on personal property are generally found to be economically harmful, as they can discourage business investments that help increase productivity and business expansion. Fortunately, Wisconsin has eliminated tangible personal property taxes on many classes of property, including most of those with the most substantial business impact. Inventories were exempted in 1960, manufacturing machinery and equipment were exempted in 1973,[130] and under recent legislation, other machinery, tools, and patterns were exempted as of January 1, 2018.[131]

Today, Wisconsin continues to tax:

- boats and watercraft;
- furniture, fixtures, and office equipment;
- leased equipment, building on leased land, and signs and billboards;
- fax machines, copiers, postage meters, and telephone systems; and
- other supplies.[132]

While the state has made significant progress in this area, ideally, the state would exempt all tangible personal property from its tax base.

129 Joyce Errecart, Ed Gerrish, and Scott Drenkard, "States Moving Away From Taxes on Tangible Personal Property."
130 Jack Stark, "A History of Property Tax and Property Tax Relief in Wisconsin," Wisconsin Blue Book 1991-1992, Legislative Reference Bureau, http://citeseerx.ist.psu.edu/viewdoc/download?doi=10.1.1.220.3827&rep=rep1&type=pdf.
131 Wisconsin Department of Revenue, Division of Research and Policy, "Property Tax Overview," Nov. 7, 2018, https://www.revenue.wi.gov/DORReports/ProTax.pdf.
132 2019 Wisconsin Statement of Personal Property, PA-003 (R. 12-17), https://www.revenue.wi.gov/DORForms/pa-003.pdf.

Property Tax Administration

The Council on State Taxation (COST) releases a report annually detailing the property tax administration practices of the 50 states, in addition to giving each state's system a letter grade based on its practices. According to COST:

> [I]t is essential for state legislators and tax administrators to ensure the tax is administered fairly and without perceptions of bias or undue administrative burdens. Taxpayers are much more willing to fairly and fully comply with a property tax system perceived as unbiased, equitable and efficient.[133]

States are evaluated based on whether they have a uniform tax base and rates, adopt efficient filing procedures, centralize review and uniform appeal procedures, and limit payment requirements to the uncontested portion of valuations.[134]

Based on these criteria, Wisconsin receives a grade of C-. A range of factors contributes to this score, including the wide variation in local property valuation cycles (the ideal is every two to three years), the lack of an exclusion for *de minimis* values, and hefty interest rates for delinquent payments.

133 Fredrick J. Nicely, "The Best and Worst in Property Tax Administration," Council on State Taxation (COST), May 2011, 1, https://www.cost.org/globalassets/cost/state-tax-resources-pdf-pages/cost-studies-articles-reports/cost-scorecard--the-best-and-worst-of-property-tax-administration.pdf.
134 Ibid., 2.

Property Tax Solutions

The following property tax solutions are designed to improve Wisconsin's property tax system to be more competitive while still providing revenue for necessary local government services. State-financed property tax swaps are frequently inefficient and economically undesirable, so we recommend against any expansion of the state's already generous system of property tax offsets. Our options balance the desire for property tax improvement with the demand for continued revenues.

Continue Toward Repeal of Personal Property Tax

Wisconsin has made notable strides in improving treatment of business personal property like machinery and tools under the property tax code. The state should continue to exempt new classes of personal property from tax with the goal of total repeal of tangible property taxes. Such a policy would reduce the cost of capital accumulation and, by extension, the cost of doing business in the state—both directly (through reduced tax liability) and indirectly (through reduced compliance costs). With the strides Wisconsin has already taken, the tax has lost much of its significance. Repeal—or further movement in the direction of repeal—is a logical next step.

Allow Property Tax Limits to Continue Working

Wisconsin should avoid the temptation to increase reliance on property tax credits, and perhaps even reduce such offsets over time. Such programs divorce local spending from local revenue collection and enhance reliance on less competitive taxes. The property tax caps in Wisconsin have been effective in reducing overall burdens in recent years and should be allowed to continue working.