

General Purpose Tax Revenue Projections for Wisconsin

2020-2040

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1) Executive Summary

This report uses a novel method of modeling total personal income based on labor supply projections to forecast the State of Wisconsin's general purpose revenue (GPR). Based on these projections, Wisconsin's GPR may be lower in the future than expected.

- If GPR were to grow at the same rate it has grown from 1980 to 2024, then by 2040 GPR would be \$18.1 billion (2010 dollars). However, using this report's demographic- and income-based model, GPR would only be \$15.3 billion (2010 dollars).
- This is a shortfall of 2.7 billion dollars, 14.9% lower than what could be expected if growth followed historical patterns.

2) Introduction

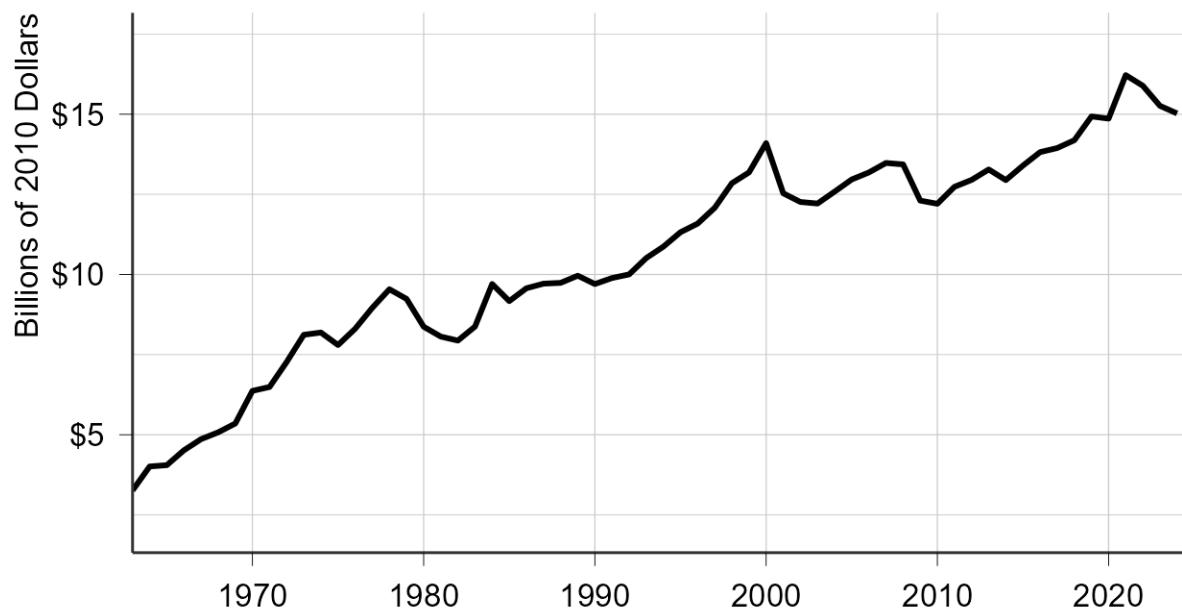
Tax revenue is the lifeblood of government and the provision of public goods and services. Public funds are crucial for operations and programs, such as education, roads, ports, water supply and waste processing, the justice system, and social services, among many others. Limited tax revenue can result in fiscal constraints that impact state functions.

As Wisconsin's older workers age and leave the active workforce, the growth rate of the state's total personal income (TPI) will decline. Additionally, the composition of TPI will shift away from earned income sources and towards transfer payments, e.g., wages to social security. In turn, these TPI changes will impact the state's general purpose revenue (GPR). This revenue is collected from various sources and deposited into a flexible general fund, making it available for appropriation by the legislature (Wis. Stat. § 20.001(2)(a)). This is in contrast to segregated funds, which are tax revenues already statutorily allocated for particular purposes.

This report is a continuation of previously published reports by the Department of Workforce Development (DWD) on Wisconsin's labor supply and income (Winters et al., *Labor Supply Projections for Wisconsin*). Here, GPR projections are based on the TPI projections. These TPI projections are based on latest population projections from the Wisconsin Department of Administration (DOA) (Wisconsin Department of Administration).

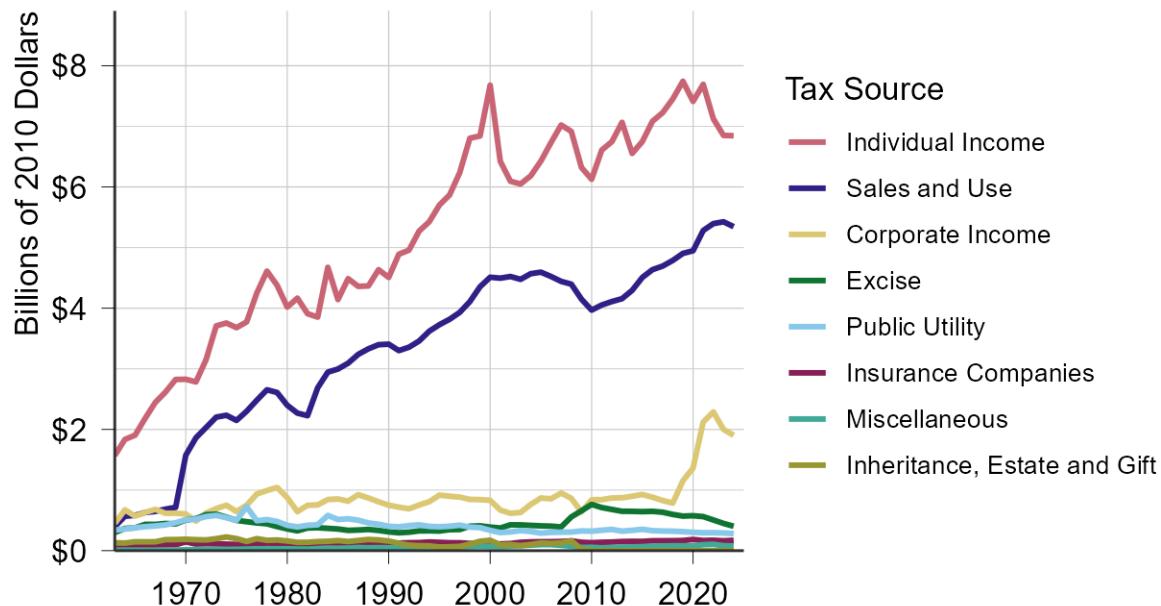
Wisconsin's total GPR has exhibited a strong upward trend in real terms over the past 60 years. In 2023, the state of Wisconsin raised around \$15 billion in 2010 dollars (\$20 billion in nominal terms). However, the state's GPR has expanded jointly with population growth. This report attempts to predict how changes in the state's population and its earning potential will affect the government's revenue. As policymakers plan for Wisconsin's future, they should bear in mind that, if current trends continue, the state will be facing a period of slower growth in both population and tax revenue.

Figure 1 — Historical total general purpose revenue (billions of 2010 dollars).



There are eight sources of revenue that make up GPR in Wisconsin. The overwhelming share (83.6%) comes from individual income taxes and sales and use taxes. Individual income tax is the larger, followed by sales and use taxes. These two tax sources have driven most of the growth in revenue over the past 80 years and continue to expand in importance.

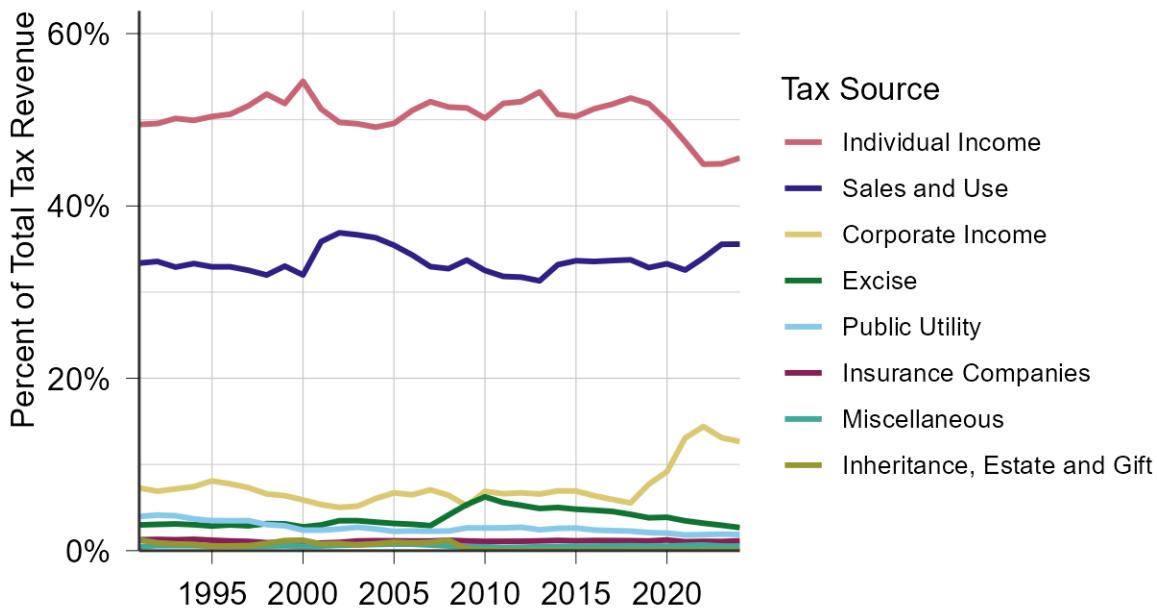
Figure 2 — Historical general purpose revenue by component (billions of 2010 dollars).



Individual income tax has, until recent years, made up around 50% of total GPR. In 2023, individual income tax accounted for only 45%. This decline was largely driven by an increase in tax revenue

collected on corporate income, which grew to account for 13.1% of GPR in 2023 compared to 6.57% the year prior.

Figure 3 — Historical general purpose revenue by component as percent of total GPR (billions of 2010 dollars).



Below, the effects of limited population growth are carried through to show the likely influence on Wisconsin's tax revenue. The analysis is focused on state general purpose revenue and does not consider local taxes or impacts.

3) Methodology

State tax revenue depends on many variables: population, income, employment, industrial composition, tax policy, the business cycle, among others. As a result, this paper relies on the assumption that TPI is a useful proxy for overall macroeconomic activity. Other important determinants of tax revenue, like tax policy or the business cycle, are unpredictable. This model builds upon prior research which projected TPI to 2040 (Winters et al., *Personal Income Projections for Wisconsin*). That research itself expanded upon projections of population and jobs supply to 2040 (Winters et al., *Labor Supply Projections for Wisconsin*).

GPR by revenue source was adjusted for inflation to calendar year 2010, allowing for direct comparison with real TPI across time. GPR is recorded by Wisconsin's fiscal year, which runs annually from July 1 through June 30.

The revenue from each tax source was calculated as a percentage of TPI for a reference calendar year. In Table 1, the most recent reference year for GPR was fiscal year 2024.

Table 1 — Share of total personal income by tax source.

Tax Source	Share of 2024 TPI
Corporate Income	0.6%
Excise	0.1%
Individual Income	2.1%
Inheritance, Estate and Gift	0.0%
Insurance Companies	0.1%
Miscellaneous	0.0%
Public Utility	0.1%
Sales and Use	1.6%

Multiplying the tax source share of TPI for reference year 2024 by the projected TPI yields revenue projections for each major tax component. Other models were considered, including multivariate time series regression models. However, these proved to be overly complex and volatile with the available data.

This model structure comes with several important assumptions. The most important assumption is that changes in GPR are directly proportional to changes in TPI, which is more reasonable for some tax sources than others. Additionally, this model also assumes that the tax regime from the reference year is constant throughout the forecast period. This model is also not dynamic, meaning that changes in GPR do not affect personal income. As part of the TPI projections, the unemployment rate is predicted to be at a steady, noncyclical rate. Structural and technological changes to the economy are not predicted beyond demographic and labor market trends that were incorporated into the TPI model. Also, this model does not anticipate changes in tax policy.

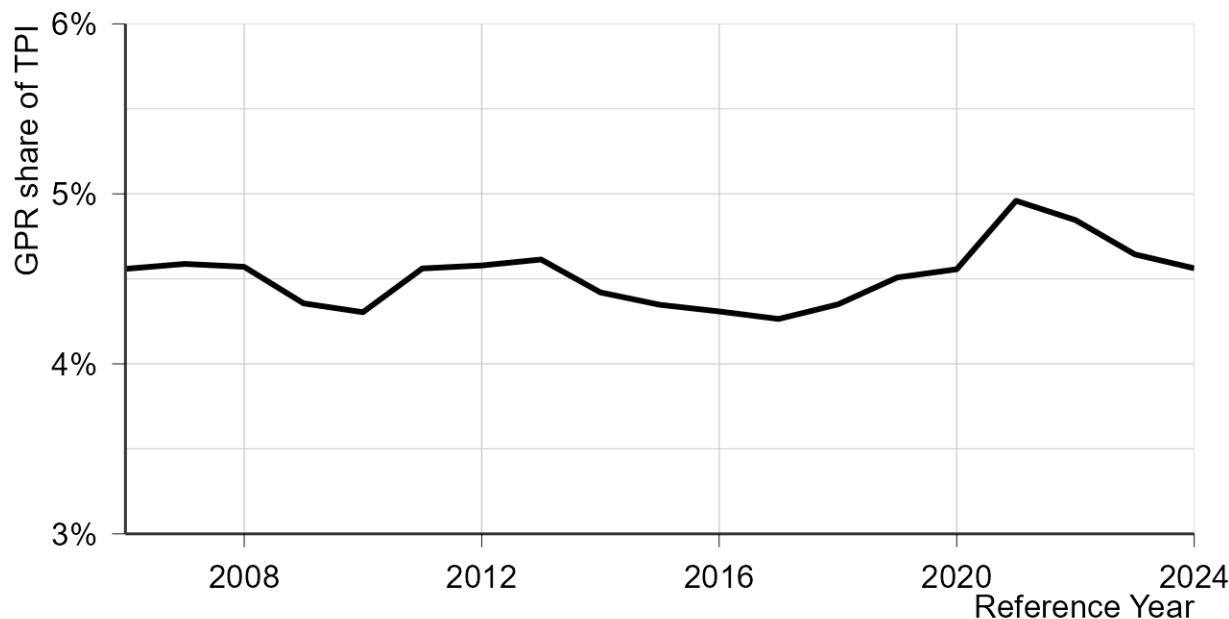
However, the model was constructed with multiplicative and additive factor coefficients (“levers”) that allow various scenarios to be simulated. For example, if a tax policy alters the personal income tax levy, the lever on the personal income tax coefficient can be increased or decreased accordingly to simulate the impacts of the policy change.¹

3.1) Reference Year Comparison

The reference year refers to the specific slate of tax sources used to determine the overall GPR totals. From 2006 to 2024, GPR as a share of TPI has been relatively constant, fluctuating around 4.5%.

¹The supply model incorporates controls that allow for the manual adjustment of most variables.

Figure 4 — General Purpose Revenues as Share of Total Personal Income by Year



However, the composition of this overall share has shifted, with the relative importance of the individual income tax declining slightly in favor of taxes on corporate income and sales and use taxes.

Table 2 shows how different reference years lead to varying levels of GPR. The 2040 projections of GPR range from \$15.1 billion for reference year 2016 to \$17.4 billion for reference year 2021. While this can be a useful point of comparison, forecasts using earlier reference years are not necessarily valid as they were under obsolete tax policies.

Table 2 — Comparison GPR projections by reference year (billions of 2010 dollars).

Reference Year	2040 Total GPR
2016	\$14.5
2017	\$14.3
2018	\$14.6
2019	\$15.1
2020	\$15.3
2021	\$16.6
2022	\$16.3
2023	\$15.6
2024	\$15.3

4) Results

4.1) Income Components

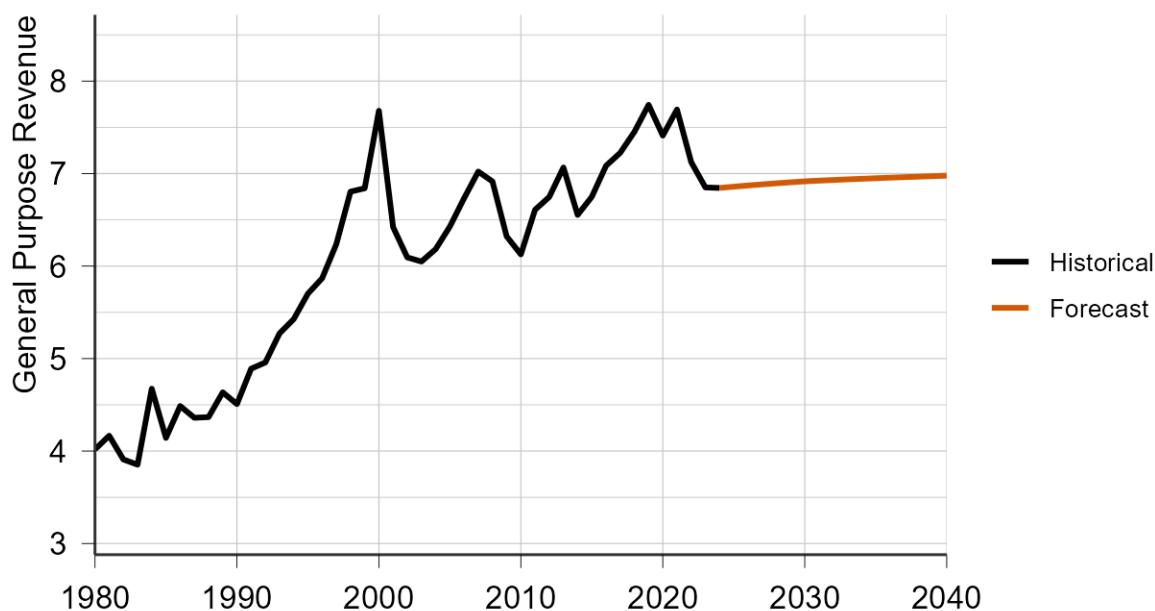
4.1.1) Individual Income

The State of Wisconsin imposes a progressive income tax on people working in the state. This income tax is levied on wages, salaries, investments, or other forms of income an individual or household earns. The individual income tax is the largest source of the state's GPR, accounting for about half of the total. As of the 2024 tax year, the income tax collected was 45.6% of total GPR. In real terms, the revenue generated from this tax has fluctuated with economic conditions over time, with dips in collections corresponding with economic recessions and periods of high unemployment (and thus lower incomes from which to collect).

The income tax is broad and complex, making it a common tool used by policymakers, leading to many changes in the tax regime. For example, income taxes were decreased for tax year 2014, leading to a decline in collections. Further tax reductions were enacted for tax year 2022 (Spika, 22). New tax cuts introduced in the 2021-23 and 2023-25 state budgets, decreased income tax collections.

Individual income is one of the tax sources most directly applicable for this paper's projection method; the forecast for TPI was approached from a demographic perspective. The declining growth rate of Wisconsin's population is also a decline in growth of those contributing to GPR. Also, as the state's population ages and retires, the number of retired individuals will increase, leading to declining wage income as substituted by Social Security payments (Winters et al., *Personal Income Projections for Wisconsin*). Taking that into account, the forecast of individual income tax shows only very small growth from around \$6.8 billion in 2023 to \$6.9 billion in 2040.

Figure 5 — Individual income tax revenue (billions of 2010 dollars).



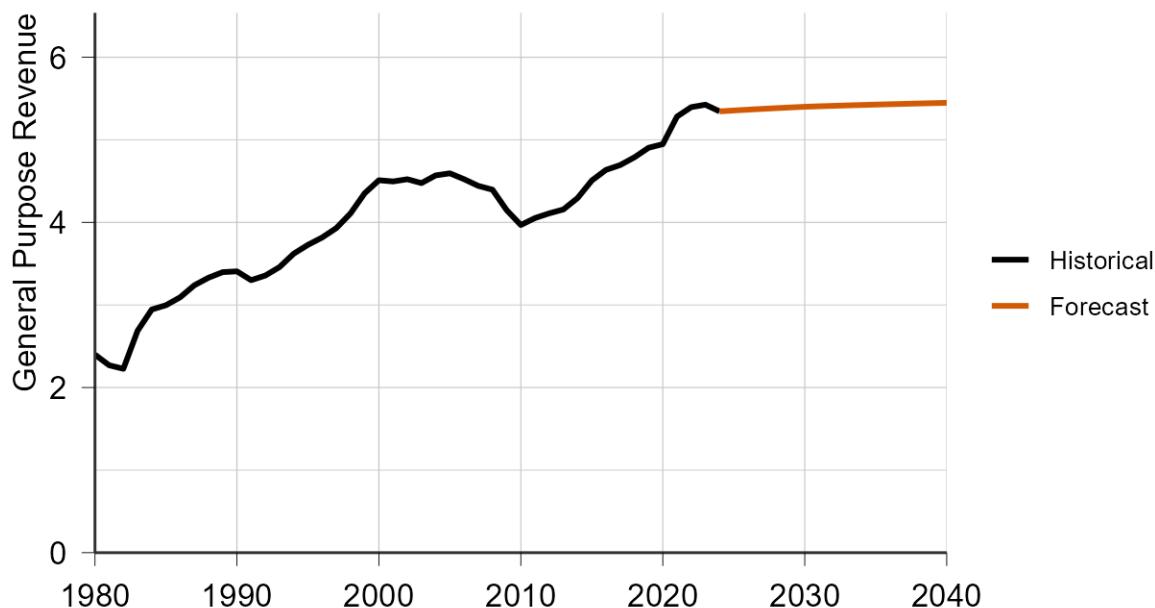
4.1.2) Sales and Use

Sales and use tax is the second-largest component of Wisconsin's GPR. Over the past two decades, it has often been about a third of the total GPR. In recent years, it accounted for slightly more; during the 2024 tax year, sales and use tax accounted for 35.6% of GPR (Sydney Emmerich, 14).

Wisconsin levies a 5% tax on applicable retail sales of goods and services. The use tax is a corresponding tax on goods purchased from outside of Wisconsin but used within the state. This is designed to allow equal competition by Wisconsin merchants and to prevent consumers avoiding taxes. Over the years, the sales and use tax has expanded to apply to broader base of goods.

Only during the Great Recession (2007-2009) has Wisconsin seen a decline in sales and use tax revenue. Even during the COVID-19 pandemic of 2020, sales and use tax revenue increased, albeit at a slower rate than previous years. In the years afterward, sales and use tax revenues in Wisconsin saw an uptick in 2021 and 2022 because of pent up consumer demand, federal stimulus checks, and corrections to disrupted supply chains. Following this rapid rebound, sales tax revenue has slowed in the past two years. Despite this slowdown, sales and use tax have become an increasingly important source of tax revenue for the state. TPI has a direct correlation with the sales and use tax: as individuals earn more income; their propensity to consume is high. Growth in sales and use tax has outpaced TPI in real terms. Using TPI projections, this model predicts modest growth in sales and use tax revenue. Sales and use tax revenue are projected to grow from \$5.3 billion in 2024 to \$5.4 billion in 2040.

Figure 6 — Sales and use tax revenue (billions of 2010 dollars).



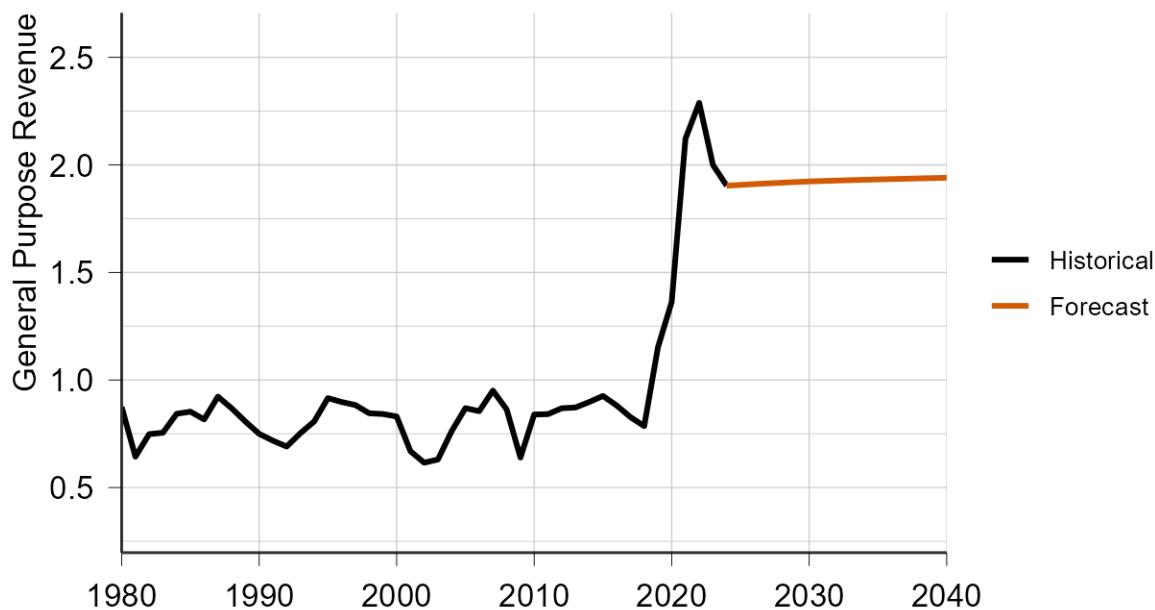
4.1.3) Corporate Income

Corporations operating in Wisconsin are subject to taxes, either in the form of an income tax or a franchise tax. Both forms of corporate tax usually result in the same flat rate of 7.9% on all taxable income which has been in place since 1981 (Wisconsin Department of Revenue, 1).

The state witnessed rapid tax revenue growth from this source from 2018 to 2022 for two primary reasons: higher reported corporate income due to changes in federal law incentivizing corporate income rather than shareholder dividends and increased auditing from Wisconsin's Department of Revenue. (Wisconsin Policy Forum; Wisconsin Policy Forum, *State Increases Auditors – and Corporate Collections*).

Corporate income tax revenue future trends indicate flat growth, increasing from \$1.90 billion in 2024 to \$1.94 billion in 2040.

Figure 7 — Corporate income tax revenue (billions of 2010 dollars).



4.1.4) Excise

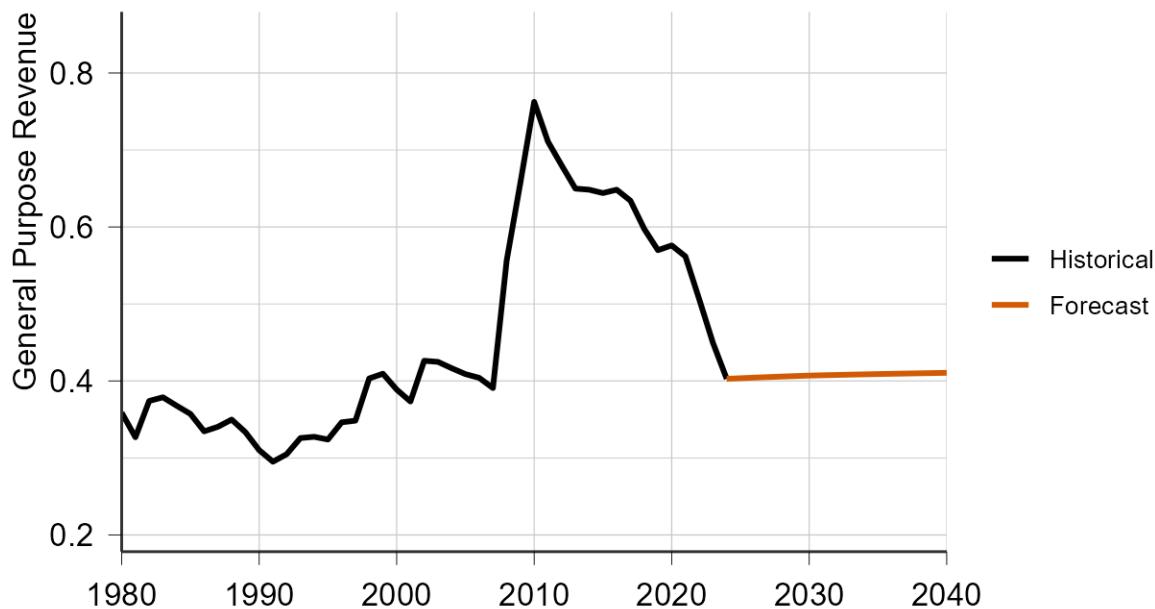
Excise taxes target specific goods or services at the moment of production. Wisconsin has excise taxes on cigarettes, tobacco products, vapor products, liquor, wine, and beer (Wisconsin Department of Revenue, *Wisconsin's General Fund Excise Taxes*, 1). Historical trends show a dramatic increase around 2010, due to an increase in the tobacco tax rates, with slow declines in real excise tax revenue thereafter.

Revenues in 2024 dropped for most of these excise taxes, except on vapor products, with a low growth of 0.6% tax on e-cigarette materials. The majority of the excise tax revenues in Wisconsin are from the state's \$2.52 tax on each pack of cigarettes sold. Revenue from the cigarette tax fell from \$449 million in 2023 to \$403 million in 2024, a 10.4% decline. The longer-term decline in revenue from taxes on cigarettes reflects a decrease in the number of smokers and a growing

number of alternative smoking options (Wisconsin Policy Forum, *Wisconsin's State and Local Tax Burden Fell Again in 2024*).

Excise taxes can rise and fall with income increases or decreases. However, this basic economic intuition does not always capture changes in taste or personal preferences. For example, changes in TPI would not reflect the declines in alcohol consumption in younger generations, which could indicate declines in excise tax due to lower demand for alcoholic beverages (Saad).

Figure 8 — Excise tax revenue (billions of 2010 dollars).



4.1.5) Public Utility

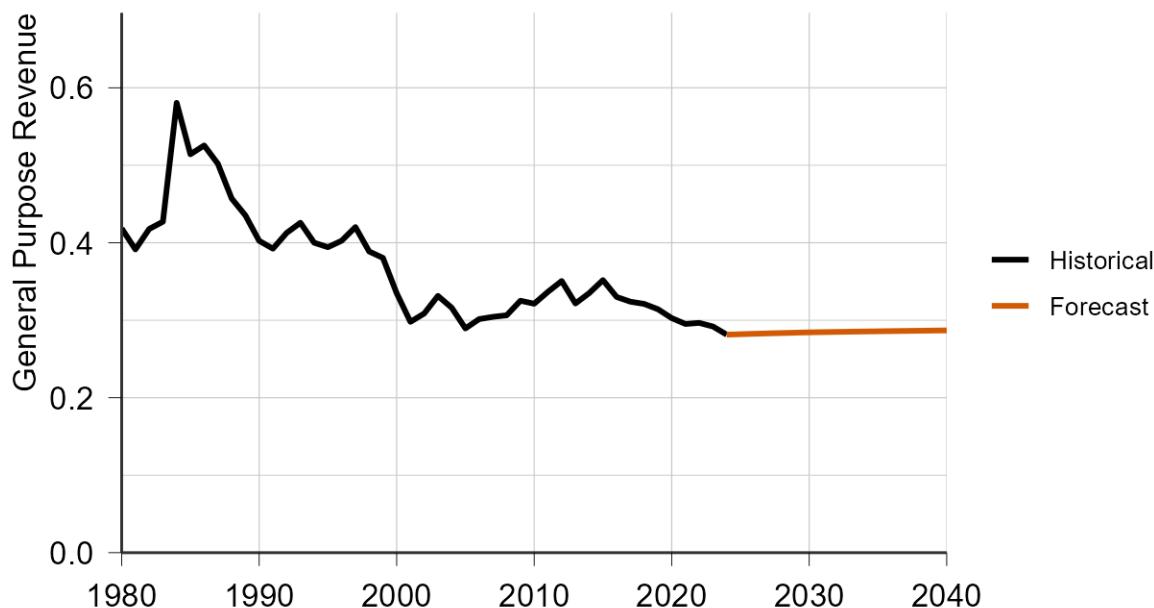
Wisconsin charges gross revenues or ad valorem taxes on utilities in lieu of local property taxes on these businesses. Carlines, electric cooperative associations, and municipal and private light, heat, and power companies pay taxes on their gross revenues. Airlines, conservation and regulation companies, municipal electric association projects, pipelines, railroads, and telephone companies pay an ad valorem tax. (Emmerich and Poelstra, 1). The largest tax source within this category are heating, power and water municipal public utilities companies. Taxes levied by these types of companies account for 59.5% of the GPR from public utilities.

Public utility tax revenue has declined since its height in the 1980s. In recent years, one aspect of public utility tax revenue decline can be credited to the decline of water sales in the state. Residential water purchases declined by 10.5 billion gallons, or 16%, between 1997 and 2022. Water sales declined 27% on a per capita basis, from nearly 13,000 gallons per person in 1997 to just over 9,300 in 2022. This change may be due to water conservation regulation on federal level. Commercial water sales have also been decreasing (Wisconsin Policy Forum, *As Other States Go Dry, Wisconsin's Water Use Plummets*).

Utility usage is often directly tied to population, but that is not always the case. Unlike other tax sources that rise with personal income (like the sales tax, which rises as residents purchase more

goods) public utilities usage is more stable relative to the population. With that in mind, using TPI projections to estimate future public utilities shows relatively minor growth. However, this does not include the recent expansion of power- and water-intensive artificial intelligence (AI) data centers, which could affect public utilities (Ahmad).

Figure 9 — Utility tax revenue (billions of 2010 dollars).



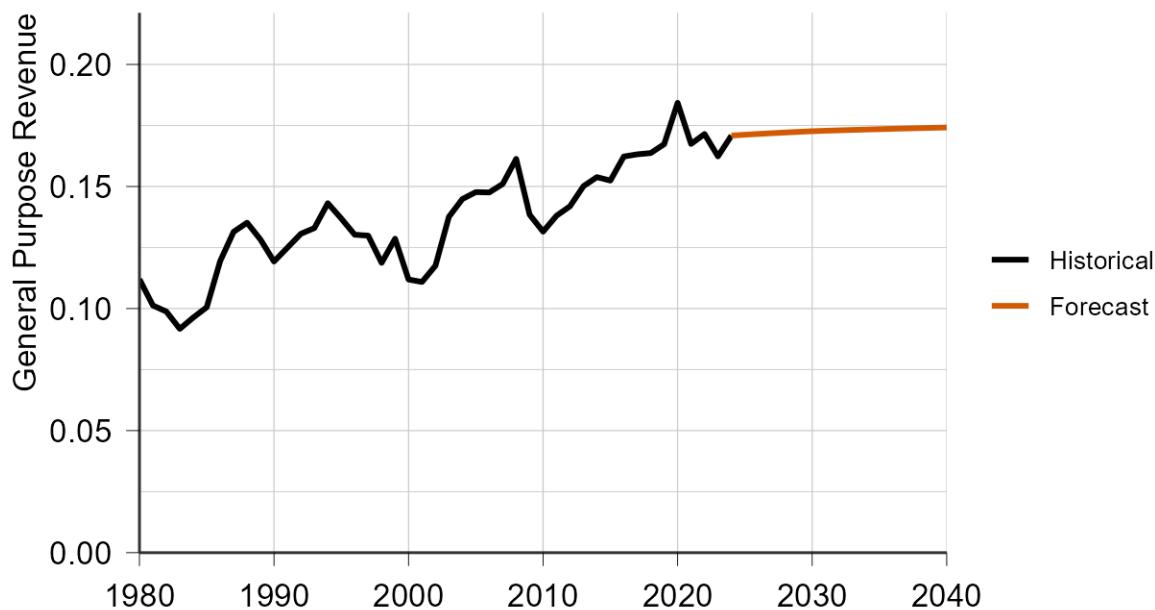
4.1.6) Insurance Companies

Insurance premium taxes are a type of sales tax assessed on insurance gross premiums and paid by insurance companies. Accident and health insurance makes up a large part of the insurance premiums (Gentry, 2). Wisconsin had 2,024 total domestic and foreign insurers licensed in the state in 2022 (National Association of Insurance Commissioners, 8). Taxes on premiums are relatively straightforward to assess and stable across time.

Insurance premiums rise with population and insurable property, a rough proxy for economic conditions. Premiums fell during the Great Recession as individual coverage is often linked to employment. The COVID-19 Recession had a disproportionate impact on insurance premiums. For example, many auto insurers issued rebates and discounts due to the decreased travel during the pandemic.

Projections show that growth in this tax source will slow in the coming decades. This ties directly to trends in personal income and demographics: as population growth slows, there is diminishing demand for insurance.

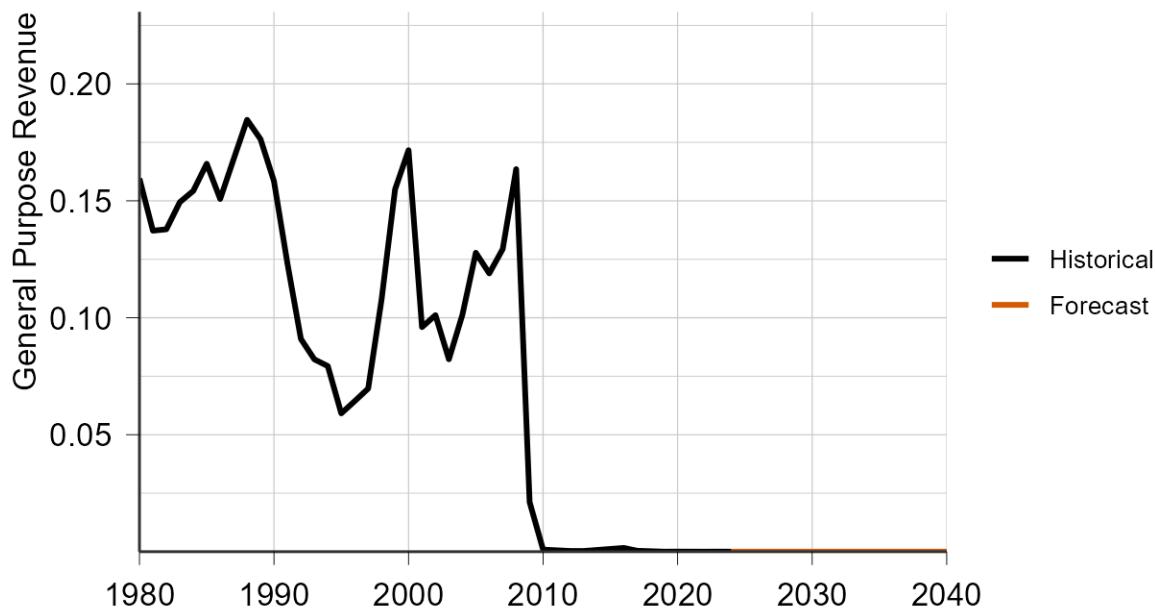
Figure 10 — Insurance premium tax revenue (billions of 2010 dollars).



4.1.7) Inheritance, Estate and Gift

Since 2007, Wisconsin has not imposed taxes on inheritances, estates, or gifts. Unless such taxes are re-imposed, this model predicts that this tax source will continue to be \$0. Historically, the tax source was not a significant component of GPR, only accounting for an average of 0.7% of GPR between 1980 and 2010.

Figure 11 — Inheritance, estate, and gift tax revenue (billions of 2010 dollars).

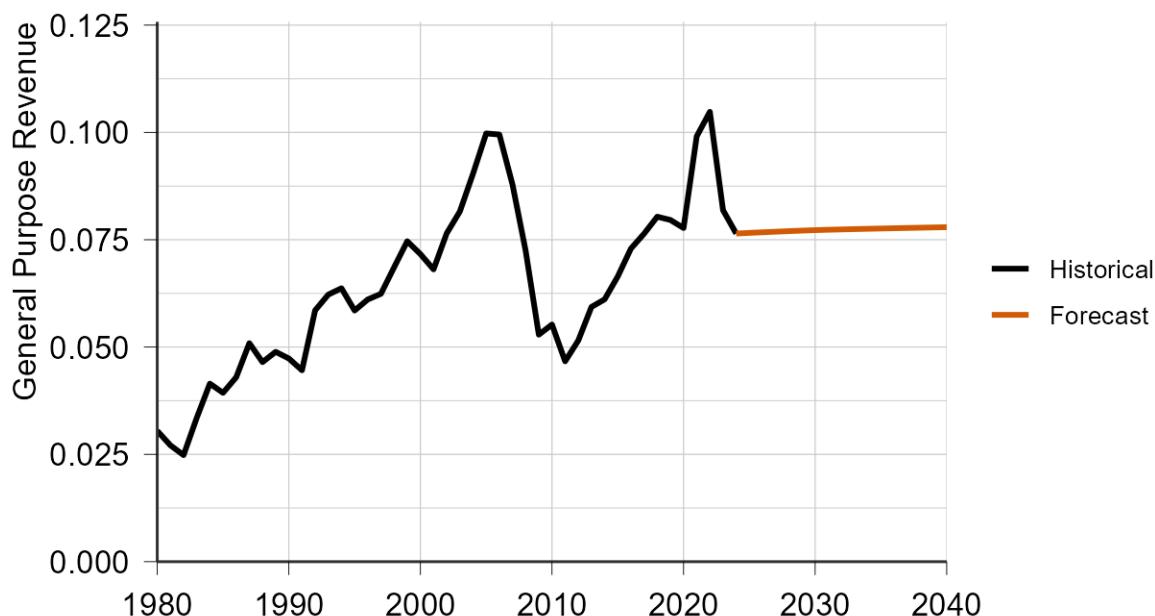


4.1.8) Miscellaneous

Miscellaneous tax credits are a group of less common taxes that apply to taxpayers in various situations. Primarily these include a real estate transfer fee, court-related fees and various occupational taxes. The largest of these is the real estate transfer fee, accounting for 87.3% of miscellaneous tax collections as of the 2023-24 fiscal year (Emmerich, *Miscellaneous Taxes*, 1). Often these taxes are collected by counties and municipalities with the state receiving a share. Only the state's take is included in this tax source .

As the real estate transfer fee makes up most of this source, it is heavily dependent on the real estate market. This is visible in the dip during the Great Recession, which originated with the bursting of a housing bubble. It can also be seen in the aftermath of the COVID-19 Recession when high interest rates led to a slow housing market. As this source is heavily cyclical, it is difficult to specifically predict. This method predicts that this tax source will remain essentially flat.

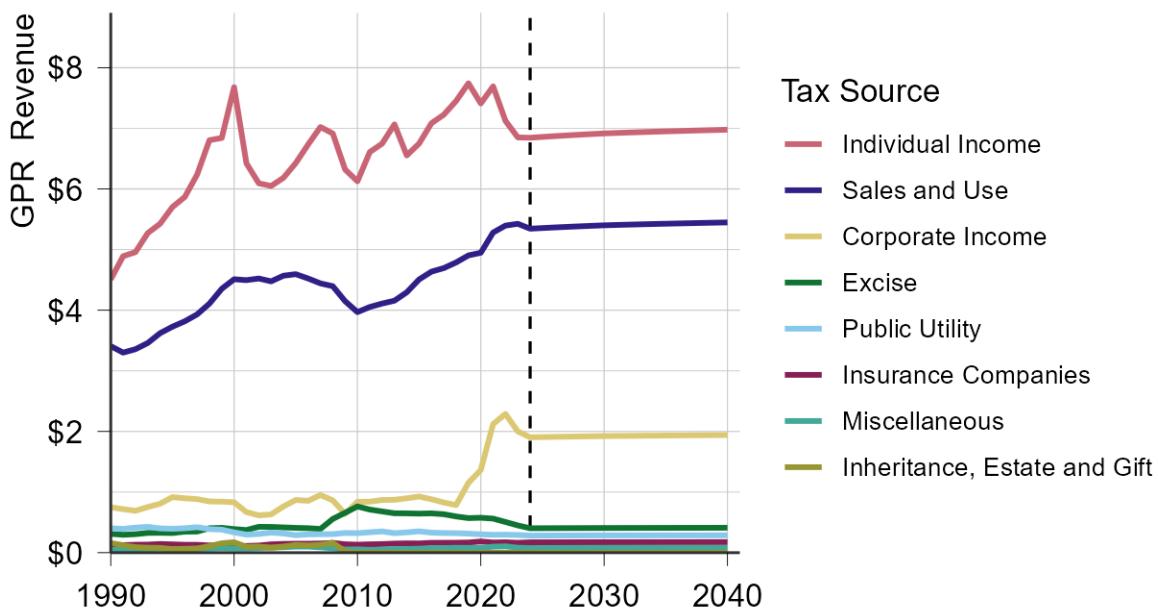
Figure 12 — Miscellaneous tax revenue (billions of 2010 dollars).



4.2) Total Revenue

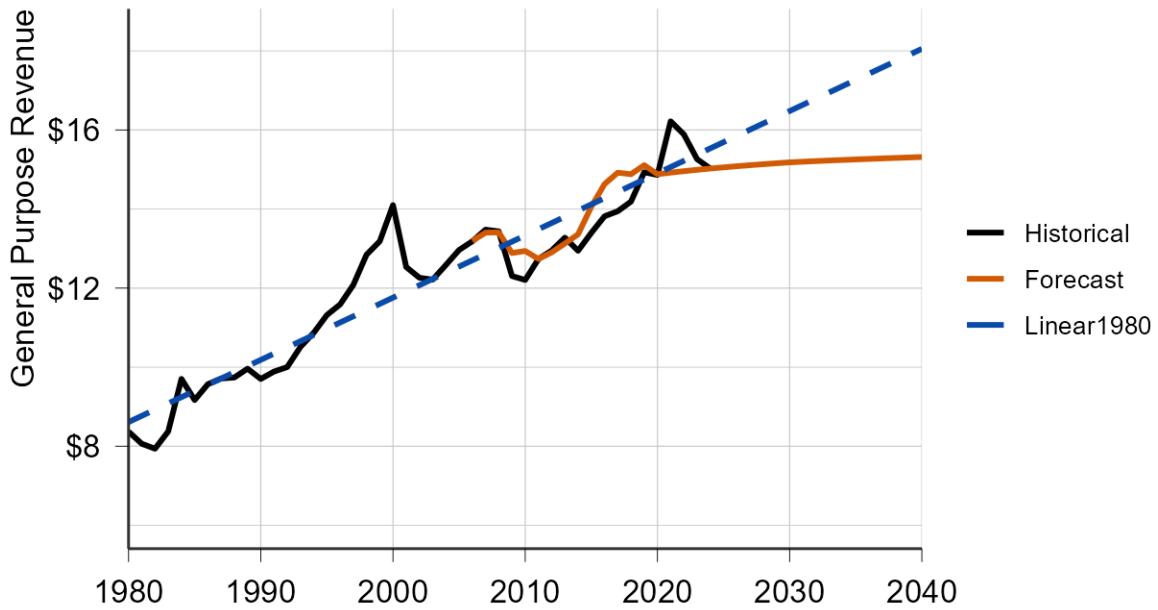
Portrayed in the Figure 13 below is the past and future revenue generated by each GPR contributing component. The tax incidence factor to TPI is fixed on the latest years share. The relatively flat projections seem out of place against the historic trends. That is the crux of the matter being illustrated. For example, the changes in population demographics and, in turn, the workforce coupled with the effects on personal income, will dictate changes in the tax revenue for each individual stream.

Figure 13 — Tax revenue by source (billions of 2010 dollars).



Furthermore, summing the tax revenue components yields an overall GPR. As the components become flat, the sum total tax revenue of the components will also show little growth.

Figure 14 — Comparison of linear trend and forecast model.



There has been steady growth in real terms of general purpose tax revenue over the last 40 years. Approximating this growth using a linear function of GPR from 1980 to 2023, while simple, provides a useful point of comparison to this model. With this as a comparative, the base case trends below historical linear growth by 8.5% or about \$1.3 billion in real 2010 dollars in 2030; by

2040, this gap would grow to 17.9%, or \$2.7 billion. Figure 14 highlights the differences in these projections.

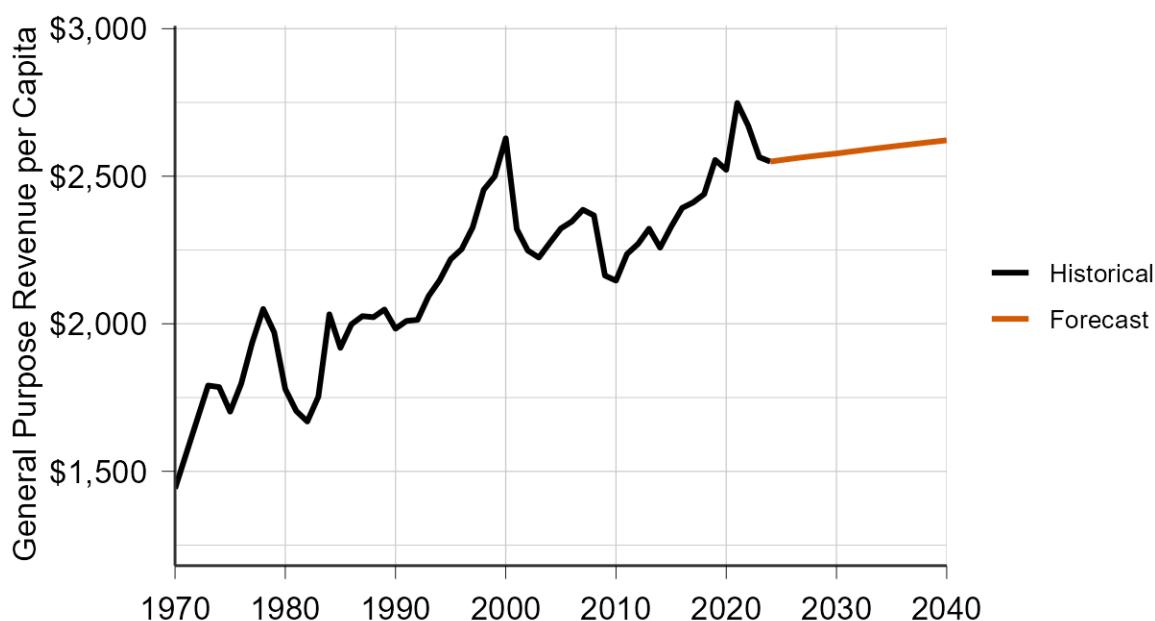
Table 3 — Comparison of linear trend and forecast model.

Year	OEA Projection	Linear Projection	Difference	Percent Difference
2030	\$15.2	\$16.5	-\$1.3	-7.9%
2040	\$15.3	\$18.1	-\$2.7	-15.2%

4.3) GPR Per Capita

GPR per capita can be a measure of the relative tax burden on the citizens of the state. The GPR tax levy per capita has fluctuated significantly since the 1980s, but has generally shown an upward trend. Since 2010 there has been a predominately upward trend, growing from a GPR per capita of \$2,146 in 2010 to a peak of \$2,748 in 2021.

Figure 15 — GPR per capita (billions of 2010 dollars).



Using 2024 as the reference year for tax share, tax revenue per capita is projected to increase slightly throughout the forecast period. From 2020 to 2040, the tax revenue per capita rises 4.0%.

This calculation is a result of the expected slow growth in tax revenue generated under the current tax regime against the slower population growth projected in the labor supply paper (Winters et al., *Labor Supply Projections for Wisconsin*).

Changes in the current tax schedule would alter the tax burden. For example, if more tax revenue is to be raised, the tax per capita figure would increase. If tax revenue is lowered, the burden would fall correspondingly.

Alternative tax scenarios can be simulated to calculate the per capita tax load using the simulation construct built into the model.

5) Conclusion

Assuming current demographic and workforce conditions continue as predicted, Wisconsin's tax revenue in future decades may be less than what is expected. The human resource component of the economy is changing in an unprecedented way. As one of the three legs of the economic stool (natural resources and capital being the other two), a compromise in the supply of labor will alter the economic construct in a unique manner.

This research paper looks at the potential impacts that Wisconsin's changing human resources will have on the state's tax revenue. As Wisconsin's workforce ages, the income streams change, and the tax base takes on a new configuration.

Planners, policymakers, and state-funded organizations should be aware of expectations of the State of Wisconsin's own tax revenue in the coming decades. If one were to assume that the state's tax revenue would increase at the rate it has grown since the 1980s, Wisconsin will face a substantial gap between expected and actual tax revenue in the coming decades.

6) Appendix

6.1) Model Equation

$$GPR_t = \sum_s \Psi_{st}$$

$$\Psi_{st} = \beta_{s\tau} \times Y_t$$

$$\beta_{s\tau} = \frac{\Psi_{s\tau}}{Y_\tau}$$

Where

GPR - Total general purpose revenue collected

t - Year

s - Tax type (individual income, sales and use, corporate income, excise, public utility, insurance companies, and miscellaneous)

Ψ_{st} - Tax revenue from component tax type s from year t

Y - Total personal income

$\beta_{s\tau}$ - Tax revenue of type s as a share of total personal income during year τ

τ - Reference year used for the general purpose revenue share of personal income

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