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Tax Climate Driving Industry Out

Burden Shifts to Residences

by Armin Jocz

DEATH IS often compared to taxation as the only inevitable experience in life. They share many similarities. Both are not fully understood nor want to be understood by the public. Both are inevitable and must be endured. Fortunately there is hope associated with both. Medical research has made remarkable advances against some dreaded diseases; at the same time economic research has defined problems with the property tax and is offering solutions.

More and more people intuitively feel the present property tax is wrong (regressive, counter to community goals, and increasing at a rate which seems to be out of control) but don't know why. The Beloit Chapter of the Wisconsin Property Owners League, a grass roots citizens organization with 2,800 members, spent over two years studying the effects of the property tax and the impact of various solutions. The facts and figures are unique to Beloit, but we feel the observations and conclusions are typical of most any city.

Traditionally the property tax is the major source of revenue for financing local services. In Beloit, it furnishes $8.2 million (50%) of a $16.9 million community budget. The amount varies from 80% for the vocational school, to 62% for public schools, 40% for the county, and 34% for municipal services. This latter figure is somewhat misleading since another 24% of the municipal revenue comes from such local sources as fines, fees, licenses, and enterprises. The biggest source of the remaining revenue is shared taxes from the state.

During the decade of the 60's, the property tax contribution increased 310% while the shared tax contribution for municipal services increased only 50%. Therefore, despite our best efforts to seek relief elsewhere, the property tax will continue to be the major source of revenue for local services.

Furthermore, we observe that from 1970-71 the local expenditures increased 5.0% while the property tax levy increased 10.2%. We can, therefore, conclude that state aid is not as sensitive to inflationary factors as expenditures. As a result, the property tax increases at twice the inflationary rate.

To dwell on just one item of the equation of taxation is misleading. Local public expenditures must equal income, which in turn is equal to the total community's assessment times the mill rate. A community's assessment is the summation of value in land, structures, and income-producing personal property for its industrial, mercantile, residential, and agricultural classes.

INDUSTRY DRIVEN OUT

During the 60's, the total Beloit assesment increased by 4½% to $246 million. However, during this time eight industries worth over $14 million left Beloit, reducing the industrial assessment over 26%. On a per capita basis, this had one-half the impact on Beloit as the loss to Chicago from great fire. The great bulk of them relocated a few miles over the state line in Illinois where they had essentially the same labor market and transportation facilities but a more favorable tax climate.

To get a feel for this tax difference, Beloit industry paid over $300,000 more (about 20%) in both corporate income and property taxes during 1971 than they would have paid if located in Illinois.

On the basis of per capita income, Wisconsin ranks 3rd highest in the nation on the basis of property tax, 7th on the basis of corporate income tax, 2nd on the basis of individual income tax and 1st on the basis of all state and local taxes. Beloit's situation is intensified by its proximity to the state line but the same factors exist for industry located throughout Wisconsin. Once a firm decides to move, it makes little difference if the new location is blocks or miles away.

One must also observe that the executives who make these decisions pay a personal income tax of 10% in Wisconsin (which will be increased to 14% as a result of recent legislation) and only 2.5% in Illinois. Especially during times of inflation and/or recession when the profit squeeze is the hardest, industry—which is the key to growth—is being driven out of Wisconsin.

PER CAPITA UP AND UP

During the 60's, residential assessment increased by 42%, superficially indicating a substantial increase in population. In actuality, Beloit's population increased by only 8.8% during the period. However, the assessment per capita increased 33% from $3,330 to $4,330. Income tax laws, moreover, allow an industry or business, but not residences, to depreciate their structures during the same time homes appreciate. As a result, the residential sector of the community which paid 50% of the property tax in 1960 now pays 57% in 1971. These observations are not confined to Beloit. From 1960 to 1968, Wisconsin's population increased by only 6.6% while the total equalized evaluation increased by 59%.

In addition to the above problems, we make another significant observation that properties within a tax district are not being assessed at the same percent of the market. The State Department of Revenue not only compares assessments between taxing districts for the purposes of state aid formulas but also compares property within a district between the various classes. The Department of Revenue estimates that in Beloit the residential property as a class is overvalued by 6%, the mercantile overvalued by 1%, the industrial undervalued by 16% and the agricultural undervalued by 16%. By assessing all property to the same percent of the market value, residential taxes would be reduced 6.5%. These variances are typical of other cities.

Article VIII of the Wisconsin constitution says the rule of taxation shall be uniform; how can we have uniform taxation when we don't have uniform assessment?

DISTURBING BURDEN

Just by examining the basic results of the property tax without yet having explored the details of why, we can summarize:

1. The property tax increases at twice the inflationary rate.
2. The division of the economic assessment pie is being shifted to the residential section.
3. The economic divisions within a taxing body are valued at different percentages of the market.
4. The tax climate in Wisconsin is driving industry out rather than attracting industry.

Is there any wonder at the fast growing discontent with the property tax? Wisconsinites have every reason to be disturbed.