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# Tax reform should aim for greater tax fairness

By Jon Peacock

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The income gap between the richest and poorest Americans grew wider than ever last year, according to new data from the Census Bureau. That finding strengthens our conviction that the state and federal tax systems should not be tilted in favor of the wealthiest Americans.

At a Sept. 23 forum and in a recent Journal Sentinel op-ed, the conservative Wisconsin Policy Research Institute took a very different position. It argued that Wisconsin policy-makers should "reform" state and local taxes by relying more heavily on the sales tax, without regard to whether that adversely affects low- and moderate-income state residents.

One of the chief arguments that WPRI makes for raising the sales tax, while decreasing income and property taxes, is that people seem to think it's a fairer tax. Perhaps that's a reason to put the option on the table, but it doesn't mean that Wisconsin policy-makers should reject the goal of developing a balanced package of tax reforms that narrows rather than widens the growing divide between the rich and the poor.

According to a 2009 analysis by the Institute on Taxation and Economic Policy, the bottom four-fifths of Wisconsin taxpayers pay between 9.2% and 11.2% of their income in state and local taxes, while the top 1% of earners pay just 8% of their income for taxes. Those figures get even more lopsided if one takes into consideration the tax benefits of deducting state and local taxes on federal tax returns.

The ITEP analysis shows that sales and excise taxes fall much more heavily on low- and moderate-income households than other major types of taxes. Shifting a greater share of Wisconsin's state and local taxes onto the sales tax would produce a sizable net benefit for a relatively small number of wealthy Wisconsinites and a net loss for most of the rest of us.

A tax reform agenda should be designed to improve tax fairness and also to provide adequate support for the infrastructure and education systems needed for Wisconsin to be economically competitive. That agenda should include the following elements:

- A common-sense starting point is to improve the collection of taxes already owed. A study by the Institute for Wisconsin's Future concluded that there's a \$1.2 billion gap between taxes owed

and taxes collected.

- Our state also needs to be sure that large national corporations are paying their fair share of taxes. Accomplishing that goal requires maintaining the reforms adopted in 2009 to close corporate tax loopholes.
- The state should consider broadening the sales tax base. The long-term economic shift from the sale of goods to services, which are generally tax exempt, is eroding the sales tax base. Applying sales taxes to more services could allow the state to reduce reliance on property taxes, while also helping revenue grow with the economy.
- We should apply sales taxes to purchases regardless of whether the sale is made online or at a local store. The current exemption for online retailers puts Main Street businesses at an unfair disadvantage.
- Wisconsin needs to capture a larger share of federal aid.

One part of the solution is to continue the hospital assessment initiated last year, with the support of the Hospital Association, because it has resulted in a huge infusion of federal Medicaid dollars into our state, benefiting hospitals, health care consumers and Wisconsin's economy.

We agree that Wisconsin should reform and modernize its tax system, but let's do so without worsening the growing inequality in wealth and income in our state.

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