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Sen. Kathleen Vinehout writes about a public hearing before a committee, of which she is a member, on a bill to eliminate the personal property tax. What will be the financial impact of the proposed change, who pays more, and what goods and services do we do without?

ALMA, WI - “Taxes are what we pay for a civilized society,” Supreme Court Justice Oliver Wendell Holmes said ninety years ago.

Taxes pay for much of the goods and services we take for granted, such as roads, fire and police protection, consumer protections, schools, parks, and our social safety net. Taxes make up the largest part of the revenue in our state budget.

Taxes are a part of our daily lives, through the money we pay in sales tax or a deduction in our paycheck for income tax. Once a year, property owners send in a check to their local government for property taxes on their homes and farms.

Property tax is probably the most unpopular tax. A subset of this tax, the personal property tax, came under fire at the recent Senate committee hearing.

“When the tax bill came, I always viewed this tax as a penalty.” Quentin Schultz of River Falls told our committee. He joined dozens of business owners who traveled to Madison with hopes

of getting rid of the personal property tax.

About three percent of the property tax paid is for things that are not land or buildings. Our committee heard from a diverse group of businesses who asked for things such as the equipment to bake bread or their ski lifts at a ski resort to not be taxed.

Over the years, business groups advocated for loopholes or “exemptions” to the personal property tax. In a January 2017 paper, the nonpartisan Legislative Fiscal Bureau (LFB) listed 18 pages of “exemptions” to the personal property tax. The list includes many common items from A to Y: from animals to youth hockey.

Business owners at the committee hearing gave many examples of how difficult it was for them to know what was and was not taxed, and how expensive the tax was for them to keep records. Many complained the tax on them was unfair, calling it a “bad” tax.

But is there ever a “good” tax?

To answer this question, I turned to the teachings of many economists I learned from over the years. Recognizing that all taxes have negative effects, a “good” tax is broad-based - it affects everybody. It has a low rate and does not have loopholes. When a tax is broad-based and has a low rate, everyone pays something but no one pays too much.

A “good” tax is easy for taxpayers to comply with and easy to collect. Finally, a “good” tax causes little change in normal economic activity. The personal property tax fails this standard on many levels.

Lawmakers following the wisdom of “good” tax policy would choose a reform that gets us closer to these standards. To be revenue neutral, any lowering of the state’s revenue should be made up somewhere else.

The “somewhere else” or how the lost revenue would be made up was never discussed in the committee hearing. The cost of this personal property tax change would be about $520 million. For comparison, that is about that same amount the Governor put in his budget as a “per student” increase for all public schools.

Lawmakers who support eliminating the personal property tax said they planned to add state money to offset the loss to local community. They also said, without that additional state money, homeowners would pay higher property taxes. Some communities would see a much higher increase in property taxes. For example, the City of Blair in Trempealeau County receives 22% of its property tax revenue from personal property taxes.

The proponents of the bill suggested the money lost to communities like Blair would be made up in more state aid. However, no one could answer my question of where this money would come from.

I applaud my colleagues who want to get rid of a “bad” tax. However, we must have an honest discussion about how we are going to pay for local services upon which people depend.

History shows us that local government bears a heavy burden to make up for cuts in state funding. Eliminating the personal property tax increases that burden. If promises to make up for the loss of revenue are not met, it will affect local programs and local taxes.

If we are going to eliminate “bad” taxes, we must consider the consequences and discuss either who pays more or what goods and services we want to do without.