Supreme Court to Decide Whether Higher Tax Receipts Should Trump Property Rights

Susette Kelo and co-chairs Fred Paxton and Neil Oldham of the Coalition to Save Fort Trumbull celebrate the U.S. Supreme Court’s decision to hear the Fort Trumbull eminent domain case with other members of the coalition at Oldham’s home.

Upstate New York Taxpayers Pay up to $6 Billion in Extra Taxes, Study Finds

Upstate New York taxpayers paid as much as $6 billion more in state and local taxes than they would in an average state, mostly because of the state’s far-above-average levels of spending on Medicaid and local government payrolls, a new report from the Public Policy Institute of New York State shows.

Ten Years After GOP Takeover, Trend to Spend Still Shaping Congress

For every spending cut introduced during the first 18 months of this 108th Congress, there were more than 20 bills to increase spending. The most enthusiastic supporters of greater government outlays were Rep. Martin Frost (D-TX), who sponsored more than 270 spending hikes, and Sen. Hillary Clinton (D-NY), who sponsored more than 170 spending hikes.

These are some of the findings of the latest BillTally study, released October 7 by the National Taxpayers Union Foundation (NTUF). The report shows the prospects for every spending cut introduced during the first 18 months of this 108th Congress, there were more than 20 bills to increase spending. The most enthusiastic supporters of greater government outlays were Rep. Martin Frost (D-TX), who sponsored more than 270 spending hikes, and Sen. Hillary Clinton (D-NY), who sponsored more than 170 spending hikes.

Federal Appeals Court Strikes Down Targeted Tax Incentive in Ohio

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Florida, Ohio Lawmakers Share “Porker of the Month” Award

Congressmen worked to shelter questionable federal grants from scrutiny

by Tom Finnigan

For attempting to keep members of the House of Representatives from questioning the funding of controversial grants to the National Institutes of Health (NIH), Congressmen C.W. Bill Young (R-FL) and Ralph Regula (R-OH) were named “Porkers of the Month” for September 2004 by Citizens Against Government Waste (CAGW), a taxpayers’ advocacy organization.

Young is chairman of the House Appropriations Committee, Regula chairs the Labor, Health and Human Services, and Education (Labor/HHS) Subcommittee. The two policymakers tried to block questioning of grant funding during consideration of the Fiscal Year 2005 Labor, Health and Human Services, and Education and Related Agencies (Labor/HHS) Appropriations Act.

A year earlier, when the House debated the fiscal 2004 version of the bill, Rep. Pat Toomey (R-PA) had proposed an amendment, defeated by two votes, that would have prohibited the NIH from funding four studies: “Mood Arousal and Sexual Risk Taking,” “Study on Sexual Habits of Older Men,” “Study on American Indian Transgender Research,” and “Study on Sexual Risk among Asian Prostitutes/Masseuses.”

Young and Regula claimed they were not prepared to answer detailed questions about the grants because they had not received “timely” notice beforehand.

Chairmen Asked for No Amendments

In an effort to head off such “surprise” amendments this year, Young and Regula sent a letter (obtained by CAGW) to members of the House asking that they refrain from offering amendments in order to pass the Labor/HHS bill “in a timely fashion.” In recent years, Congress seldom has passed appropriations bills on time.

The letter stated any member who had questions about grants should contact NIH Director Dr. Elias Zerhouni, who had already “provided information to Congress about the grants in question” during Appropriations Committee hearings. Alternatively, members were directed to contact the committee itself.

Zerhouni has vigorously defended funding of such grants in the past. When previously questioned by members of Congress, he repeatedly referred them to a letter in which he argued the grants questioned by Toomey, and similar research, provide critical contributions to the study of sexually transmitted diseases and behavioral problems.

Although that may be true of some of the studies to be funded by the bill, members of Congress are obligated to question the validity of grants to the NIH, or any other agency, to determine if they merit federal funding.

“For putting the big chill on their colleagues by bullying, threatening, coercing, and intimidating them to forego frank and open discussion on the House floor, Citizens Against Government Waste declares Young and Regula to be Porkers of the Month for September 2004.”

TOM SCHATZ, PRESIDENT
CITIZENS AGAINST GOVERNMENT WASTE

Ominous Message to Committee

The Appropriations Committee is already widely acknowledged as the most powerful in the House, as it determines which projects are funded in the budget. Consent by members to accept the committee’s decisions without questioning their provisions would increase its power further. The committee’s indifference to questions also sends an underlying message that any member who challenges an appropriator may not receive funding for a requested project in the future.

Last year, Regula said during debate on Toomey’s amendment that micro-managing few NIH grants “would set a dangerous precedent and put a chill on medical research.”

“For putting the big chill on their colleagues by bullying, threatening, coercing, and intimidating them to forego frank and open discussion on the House floor, Citizens Against Government Waste declares Young and Regula to be Porkers of the Month for September 2004,” said CAGW President Tom Schatz.

Tom Finnigan (media@cagw.org) works in media relations for Citizens Against Government Waste.
DaimlerChrysler argued that a targeted investment tax credit “discriminates against interstate economic activity by coercing businesses already subject to the Ohio … tax to expand locally rather than out-of-state.” The court also took notice of plaintiffs’ claim that “the economic effect of the Ohio investment tax credit is to encourage further investment in-state at the expense of development in other states and … the result is to hinder free trade among the states.”

“In short, while we may be sympathetic to efforts by the City of Toledo to attract industry into its economically depressed areas, we conclude that Ohio’s investment tax credit cannot be upheld,” Judge Martha Craig Daugherty wrote for the unanimous three-judge panel.

“The business that chooses to expand its local presence will enjoy a reduced tax burden, based directly on its new in-state investment,” she wrote, “while a competitor that invests out-of-state will face a comparatively higher tax burden because it will be ineligible for any credit against its Ohio tax.”

The plaintiffs also attacked local property tax abatements, but the court upheld the abatements, ruling they do not “impose specific monetary requirements, require the creation of new jobs, or encourage a beneficiary to engage in an additional form of commerce independent of the newly acquired property.”

Decision Imperils State Tax Reforms

The ruling calls into question the use of state tax incentives to lure business investment, according to some legal analysts. Nearly all states have used tax incentives to compete with one another for auto plants and other major businesses projects, sometimes getting into bidding wars over the size of the incentive packages.

“One of the troubling aspects of the 6th Circuit opinion,” said COST’s Smith, “is that they don’t make clear, and there doesn’t appear to be, a legitimate distinction of how [targeted tax incentives] offered by a state would be different from a state that chooses to have a lower or no income tax. The problem is there is not a principled analysis about where the line should be drawn.”

Smith said the ruling does not clearly explain why local tax abatements made up the bulk of the incentive panel, are acceptable.

“This ruling has put tax incentive packages at some risk and creates a great deal of confusion in the industry,” Smith said.

“And the decision says that straight subsidies are fine,” Smith noted. “That’s another distinction that doesn’t make a lot of sense, legally.”

In analyzing the ruling issued Sept. 21 by the Tax Foundation, staff attorney Chris Atkins wrote, “The extensive panoply of federal and state investment tax credits, exemptions, and subsidies have been criticized by economists and politicians across the spectrum as being everything from ineffective to ‘corporate welfare.’ Economists tend to view such incentives as violating the principle of free trade and choosing to support one industry over another. Policymakers should neither favor nor punish a particular industry or sector of the economy.

“Irrespective of these criticisms,” Atkins noted, “the implications of the court’s reasoning in Cuno extend far beyond Ohio’s investment tax credit, and threaten to strike at the root of state tax reform and tax competition, while even leaving a loophole for the complicated system of state tax incentives to continue in another form.”

States May Be Able to Evade Restrictions

Atkins said many states have changed their corporate income apportionment formulas to keep in-state investment and attract out-of-state investment. Most states apportion corporate income using a weighted formula that takes into account several factors, such as sales, payroll, and property. A typical formula might be weighted 75 percent sales, 12.5 percent payroll, and 12.5 percent property. By changing the weightings, a state can make itself more or less attractive from a tax standpoint.

“For example,” said Atkins, “a state can make itself particularly attractive to manufacturers who sell to other states or countries by reducing its payroll and property [tax apportionment] factors while double-weighting the sales apportionment by, say, 100 percent, or moving it to a sales-only factor as Iowa has done.”

With a sales-only factor, sales are defined based on the buyer’s location. Increasing out-of-state sales would reduce the amount of taxable income, because more income would be apportioned outside the state. If property and payroll are used to apportion income, increasing in-state property or payroll would assign more income to the state and increase the tax.

“The only differing impact on interstate commerce between a targeted investment tax credit and a move towards a sales apportionment is probably the fact that the apportionment change would apply to all businesses while the tax credit only applies to those that purchase new capital (although apportionment changes have been found to spur the purchase of new capital in-state),” Atkins wrote.

“While this distinction regarding whether the change would apply may be as a matter of law crucial, one cannot be sure,” Atkins noted. “Accordingly, tax reform agendas in the states could be imperiled by this decision.”

Atkins said targeted subsidies and grants could be called into question.

“Making a distinction between subsidies and tax incentives seems highly formalistic since subsidies can, in practice, take on the same appearance and be treated in precisely the same manner as tax incentives,” he said. If that distinction remains, “Ohio can bypass the Cuno ruling by simply changing the tax incentive program into an investment subsidy.”

May Thwart State Tax Competition

Atkins noted states have widely varying tax policies and some states, such as Nevada, South Dakota, Washington, and Wyoming, have no corporate income tax. He worries the Cuno ruling “casts a dangerous shadow over the entire notion of tax competition among the states, and seems to point to a tax competition system that is ‘apportionment is probably the fact that the apportionment change would apply to all businesses while the tax credit only applies to those that purchase new capital (although apportionment changes have been found to spur the purchase of new capital in-state),” Atkins wrote.

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It’s Time to End State Tax Giveaways

Targeted tax incentives violate all the established principles of sound tax policy—yet they keep proliferating

by David Brunori

A few years ago, hotel giant Marriott International “hinted” that it was looking to move its headquarters out of Maryland’s Montgomery County. Virginia politicians sprang into action, offering Marriott $6 million to cross the Potomac River. Fearing the loss of 3,000 high-paying jobs and a high-profile employer, Maryland countered with $58 million worth of incentives to stay.

It turns out Marriott never was really interested in leaving Maryland. But the firm received a windfall for staying put.

With states still reeling from falling tax collections, here’s an idea: End the practice of granting tax incentives to individual corporations as a means of fostering economic development.

Incentives Have Proliferated

Public finance experts long have criticized such targeted tax incentives as violating all the established principles of sound tax policy. Yet these incentives have proliferated over the past quarter-century. Hundreds of companies have received tax breaks worth billions of dollars. Alabama—a leader in the use of incentives—has granted Mercedes-Benz more than $250 million in tax relief.

Some of this is understandable. Politicians want to encourage investment and create jobs, and they believe the most expedient way to do so is to lure companies through tax concessions. Politicians also don’t want to lose jobs. A company that is talking about leaving—as Marriott did—is sure to be offered tax breaks to stay.

Aware of this dynamic, corporations have used an army of consultants to broker deals for tax incentives. Essentially, corporations have learned to “game” the system.

When it comes to spurring economic growth, incentives are seen as the quick fix. Other ways of attracting companies—creating better schools and transportation systems, for example—take years to develop. Tax incentives can be pushed through the legislature lickety-split, and then, just as quickly, the governor and legislative leaders can be standing at a ribbon-cutting ceremony announcing a new manufacturing plant that will employ hundreds of citizens.

Poor Policy Choice

Its political allure notwithstanding, the targeted tax incentive is a poor policy choice.

First, and most important at this time of tight state budgets, targeted tax incentives cost a lot of money. Even conservative estimates place the lost tax revenue at billions of dollars over the past decade. Curbing or ending their use could balance the budgets in many states.

“Despite its political allure, the targeted tax incentive is a poor policy choice. ... Even conservative estimates place the lost tax revenue at billions of dollars over the past decade. Curbing or ending their use could balance the budgets in many states.”

Second, such incentives are unnecessary. Corporations are far more interested in access to markets, an educated workforce, and labor costs than they are in state tax burdens. As former U.S. Secretary of the Treasury Paul O’Neill said during his confirmation hearings, “I never made an investment decision based on the tax code. Good business people don’t do something because of [tax] inducements.” O’Neill led corporate giants International Paper and Alcoa.

Third, tax incentives are patently unfair. Typically, a corporation is offered significant tax breaks for creating a certain number of jobs and investing a certain amount of money in the state. But what of the companies that have already created jobs and invested money? They receive nothing. Similarly, corporations that threaten to leave a state often receive tax breaks for staying put. But what of the companies that do not have the nerve or guile to threaten to leave? The companies and individuals not receiving concessions end up paying more to make up for the tax revenue lost.

Fourth, tax incentive programs suffer from a lack of accountability. Neither the public nor most political leaders know if the corporations are doing what they promised. There are often no guarantees the recipients will create good-paying jobs or that a company won’t close down the operation a year or two later.

Under the tax incentive system, government action is prompted by fear of losing jobs to other states, dubious promises, and empty threats. The system prompts companies that do not receive incentives to lobby legislatures for similar breaks. And the incentives run roughshod over the ideal that government should minimize its presence in the marketplace.

Competition among the states, based on low tax burdens and good public services, is a good thing. But providing tax breaks to particular companies in return for a promise of doing what most companies would do anyway violates all notions of good government. Ending the practice would result in a fairer, more efficient, and more accountable public finance system. It might just save states a little money as well.

David Brunori (dbrunori@tax.org) is research professor of public policy at George Washington University. This article is reprinted by permission from the August 2003 issue of Governing magazine.

Who Is Conrad Meier?

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Conrad F. Meier is a senior fellow at The Heartland Institute and former managing editor of Health Care News, H. eartland’s monthly newspaper on market-based health care reform. M eier is a former feature writer for Williams and Wilkins medical journals and past Missouri state chairman of the health insurance committee of the National Association of Life Underwriters. He recently retired as Assistant in Research at the Center for Advanced Social Research, University of Missouri-Columbia.

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Black Caucus Member Proposes to Eliminate Personal, Corporate Income Taxes

by John W. Skorburg

A member of the Congressional Black Caucus is advocating a tax plan that could make the Internal Revenue Service obsolete.

Congressman Chaka Fattah (D-PA) unveiled his bill on September 10, while attending the 34th Congressional Black Caucus Legislative Conference in Washington, DC.

“My bill eliminates personal and corporate income taxes in favor of a set fee on all transactions,” Fattah said when presenting his “Transform America Transaction Fee” legislation at the conference.

“Rep. Chaka Fattah, one of the most liberal Democratic members of Congress, has created a framework for a consumption tax rivaling any Republican proposal.”

BRIAN DEBOSE
WASHINGTON TIMES

“Pennies on the Dollar” Fee

The fee, Fattah noted, would amount to the federal government taking “pennies on the dollar on all purchases of goods and services made in the United States, including cars, clothes, property, stocks, bonds, and purchases of American goods by foreign businesses.”

Any transaction of $500 or more that moved through the federally regulated banking system would be subjected to a 1 percent fee under Fattah’s proposal. The banking system would be subjected to a 1 percent fee under Fattah’s proposal. The IRS might work. But Alvin Rabushka, godfather of the flat income tax proposal, calls Fattah’s idea “ridiculous,” “not worthy of study,” and a “killer” of small businesses.

Economic writer Andrew Cassel of the Philadelphia Inquirer disagreed, saying the Fattah plan is worthy of study. In an August 27 column, he wrote, “It’s a far-reaching, maybe even far-fetched, idea. Even a cursory analysis turns up a host of questions and potential problems, such as: Who would collect the tax? Would foreign transactions be covered? Would it apply equally to goods and services, luxuries and necessities, rich and poor? If so, is that fair?”

Nonetheless, Cassel considered the plan worth investigation. “But the fact that it raises serious questions doesn’t disqualify Fattah’s plan from serious consideration; just the opposite, in fact. Thinking about a radical change in the tax structure is an excellent way to understand what’s wrong—and right—with our current system.”

Cassel concluded, “Even if Fattah’s idea isn’t fully baked, it can help challenge some old ideas—including the notion that only Republicans find the current income-tax arrangement oppressive and cumbersome. For that alone, it can be a welcome part of the discussion. Now if we can only get the candidates to discuss it.”

J oh n W . S korburg ( sk o r b u r g @ h e a r t l a nd . o r g ) is associate editor of Budget and Tax News.

Taxpayer Bill of Rights Movement Gains Momentum

by Rep. Frank Lasee

If anyone in Wisconsin politics thought the tax revolt was going away, that person was wrong.

In fact, rather than dying out, it appears to be spreading. The drive for constitutional spending limits—the Taxpayer Bill of Rights (TABOR)—is going nationwide.

In Wisconsin, that drive began more than six years ago, when I started working on a constitutional amendment modeled after the one Colorado voters added to their constitution by means of a popular referendum in 1992. The idea didn’t really take off in Wisconsin until much later in the decade, following the first shots of a taxpayer revolt.

Governor’s Veto Initiated Revolt

The first tangible sign of this revolt followed Democrat Governor Jim Doyle’s veto of a popular bill that would have “frozen” property taxes, allowing local governments to increase their property tax levies by only the rate of new construction. A new state senator, also a Democrat, flip-flopped on the issue, first voting for the bill, then supporting the governor’s veto. The public was outraged.

That senator lost to a Republican in what had been a traditionally Democrat Assembly seat in southern Milwaukee County. Following that, a referendum to raise school taxes in a moderately liberal part of central Wisconsin was defeated by a 4 to 1 margin.

Republican leaders promised to bring the property tax freeze back for another vote. But the freeze has two basic problems. First, the governor would simply veto it again. Second, it would remain in effect for only three years.

Calls for Stronger Curbs

People have begun turning their attention toward a permanent solution: constitutional limits on spending growth for all governmental entities in Wisconsin, with the option of a referendum to override limits or raise tax rates—the Taxpayer Bill of Rights (TABOR).

None of this came as much of a surprise to me. After six years of work on TABOR, I could see the time was right.

The need for a Taxpayer Bill of Rights in Wisconsin is obvious, and it goes beyond...
TABOR Continued

our ranking as the fifth-highest-taxed state in the nation. Government spending in Wisconsin crept from 17.5 to 21 percent of personal income between 1974 and 2000, according to University of Wisconsin Professor Andrew Reschovsky. Government spending is consuming a larger and larger share of our income, leaving less and less in people’s pockets. The solution is simple: Take the power away from those few who control the government budgets, and give it to the taxpayers who have the right to control.

Historically, Wisconsin is a state one would expect to take this step. In the late nineteenth century, Wisconsin political icon Robert “Fighting Bob” LaFollette launched the Progressive movement when he broke with the establishment over what he felt were too-close ties to special interests in banking and big business.

In the tradition of LaFollette, the Taxpayer Bill of Rights is an attempt to take some power from the government and return it to the people. Growth in spending would be constitutionally limited. The only way for the government to spend more than the limits allow, or to raise tax rates, or to borrow large sums, would be to ask the people’s permission in a referendum.

“The sky is not falling. In fact, I believe a well-crafted, constitutional, Taxpayer Bill of Rights would clear the skies admirably.”

TABOR Movement Spreading

TABOR threatens to upset the relationship between government and spending interests. The usual suspects—public employee unions, in particular—are playing Chicken Little and predicting dire consequences should TABOR become law.

But disgust over the status quo is alive and well in Wisconsin, and it is gaining steam in other states, too. Twenty-six states have some form of limit on taxes, spending, or both, but only one state—Colorado—has comprehensive, constitutional limits.

Today, people in several states are working on TABOR-like constitutional amendments, in Arizona, Minnesota, New Hampshire, New York, Tennessee, Texas, and elsewhere. There’s even talk of crafting one for the federal government.

Success anywhere will strengthen the movement by proving that limiting government does not mean disaster, contrary to what those who oppose the Taxpayer Bill of Rights would have us believe.

The sky is not falling. In fact, I believe a well-crafted, constitutional, Taxpayer Bill of Rights would clear the skies admirably.

Frank Lasee (think@heartland.org) is the Republican representative for the 2nd Assembly District in Wisconsin.

IRS Increases Pressure on Taxpayers

by Dan Pilla

Recent Internal Revenue Service (IRS) data show the agency is returning to the more stringent enforcement levels of the early and mid-1990s, but the oversight committee in charge of the service is still not satisfied. The IRS is now under pressure from a variety of sources to squeeze more taxpayers harder and more consistently.

On August 3, upon release of the 2004 Annual Report of the IRS Oversight Board, IRS Advisory Committee Chairman Roger Harris said he wants the IRS to “touch more people” through enforcement action. He said he believes that effort is justified based on the report, which claims one in five people “now believe that [tax] cheating is acceptable.”

This has added fuel to IRS Commissioner Mark Everson’s quest to restore the IRS enforcement machine to what it was 10 years ago. During his confirmation hearings in April 2003, Everson promised the Senate Finance Committee he would restore IRS enforcement to “historic levels.”

Bad News for Taxpayers

At a time when the IRS’s enforcement activities are rising, the agency is being pushed and prodded to do even more. Anita Babb, an upper-level IRS enforcement manager, recently stated the agency is “getting back to basics” in its handling of collection cases. It is pursuing revenue officers to have “face-to-face meetings with taxpayers” and make them “aware of the consequences” of the IRS’s collection powers.

IRS statistics show three disturbing trends:

Customer service is down. During the reign of Commissioner Margaret Richardson under the Clinton administration, the IRS reduced its emphasis on taxpayer assistance. Richardson once stated that if faced with a choice between helping taxpayers comply with the law and after-the-fact law enforcement, she would opt for law enforcement every time—and that’s exactly what she did. This is chiefly what led to the congressional fervor for IRS reform in the late 1990s.

But even at the height of Richardson’s rule over the IRS, the agency spent 265 staff years on taxpayer assistance during 1997, about the time Congress really began to pay attention to IRS abuse. In 2003, by contrast, the IRS spent just 75 staff years on taxpayer assistance—the lowest investment of time in helping taxpayers since before 1996. The IRS has moved away from the idea of helping people comply with an increasingly complicated tax code.

Audit levels are rising. The face-to-face audit rates for all categories of 1040 forms increased in 2003, in keeping with Everson’s promise, upon taking office, that he would increase the IRS’s audit presence. Audit rates increased by 11 percent from 2002 to 2003 and by 25 percent since 2000.

The number of audits of tax returns reporting income over $100,000 jumped 40 percent between 2000 and 2003. Audits of business tax returns increased by about 24 percent in 2003 alone. This is a direct reflection of Everson’s promise to go after more businesses.

The number of correspondence audits increased by 37 percent from 2000 to 2003—a dramatic increase given that correspondence audits account for more than 80 percent of the IRSs annual audits.

The number of taxpayers declared delinquent, and the number of enforced collection actions, are on the rise. In the 1990s, nearly five million citizens were added to the roles of delinquent taxpayers annually. That number began falling in 1997 and bottomed out in 2000, at about 4.1 million. By 2003, however, the number rose to 5.5 million delinquent taxpayers. Remember, this is the number of new delinquencies in just one year.

And though the number of collection actions, including liens, levies, and seizures, dropped by nearly 90 percent after the 1998 Restructuring Act, the number has risen steadily since the decline was arrested in 2000.

The number of liens filed has increased by 227 percent since the low-water mark in 1999. The number of property seizures by the IRS has increased by 439 percent since 2000, and the number of wage and bank levies has skyrocketed by 665 percent since their low point in 2000.

More Resources for Enforcement

Despite these increases, enforcement action has not returned to its 1996 level. The agency has asked for more funding and more power, and the Bush administration has accommodated those requests. In the recent IRS budget passed by the House Appropriations Committee on July 22, the IRS will receive $10.3 billion for 2005, $107 million more than the agency had in 2004.

Statements made and actions taken by Commissioner Everson since taking office indicate he will be inclined to spend the money on hiring more tax collectors, implementing more audits, issuing more wage and bank levies, and other enforcement actions, rather than on taxpayer assistance or education.

As a result, some Washington insiders have said of the commissioner, “enforcement seems to be his middle name.”

“Shift-and-Shaft” Tax Proposal Ekes out Win in Michigan

by Jack McHugh and Steve Stanek

Michigan real estate owners will have to pay part of their county property taxes five months sooner next year, a move that amounts to a tax increase, according to an analysis by the Mackinac Center for Public Policy.

The proposal sailed through the State Senate by a two-to-one margin before publicity raised a firestorm of opposition, prompting some members of the State House to back away. Gov. Jennifer Granholm (D) strongly argued for the accelerated property tax payments, and on September 22 the measure squeaked through the House by one vote.

The accelerated property tax payments plan was part of a budget agreement brokered by Granholm and Republican House Speaker Rick Johnson.

Though the agreement had the backing of the Democrat governor and Republican House Speaker, it barely achieved the minimum 55 votes for passage in the House.

Governor Threatened to Cut Services

Granholm had argued a defeat would have forced the state to cut back on support for local police and fire services, fire protection, and public works. That threat prompted local government officials to lobby hard for the tax shift.

“County and municipal officials from across the state thumbed the Capitol on Wednesday to counter the tax shift, fearing the alternative would be further cuts in the basic services they offer,” according to an account of the day’s vote by Mark Hornbeck of the Detroit News.

The Mackinac Center offered detailed study’s recommendations:

- Increase real estate property taxes.
- Increase tobacco taxes.
- Increase restaurant meals taxes.
- Increase state income taxes.
- Increase sales taxes.
- Increase property taxes.

“County Tax Shift: It Quacks, It Waddles; It’s a Duck,” is available on the Mackinac Center for Public Policy Web site at http://www.mackinac.org/article.asp?id=6818

Lost Will Be Measurable

In addition to the balance sheet effects, for many taxpayers there is also the opportunity cost of handing over their cash five months earlier. During that time they lose the chance to earn interest on their money. At today’s historically low interest rates, this doesn’t amount to much, but when rates go back up the opportunity costs will also increase.

As a result, taxpayers will involuntarily lose wealth, and the government will gain the tax revenue. The law enables the state’s political establishment to postpone cuts in spending while taking more from home owners, prompting the Mackinac Center to characterize the law as a tax increase.

Jack McHugh (mcugh@acd.net) is a legislative analyst for the Mackinac Center for Public Policy. Steve Stanek (stanek@heartland.org) is managing editor of Budget & Tax News.

INTERNET INFO


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by John W. Skorburg

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Tom Shields, a spokesman for MotorCity Casino, said the operation “is still studying the job cut issue,” according to a story in the September 16 Detroit News.

City, State to Split Taxes

The tax increase will boost Detroit casino taxes from 18 to 24 percent of all gambling revenues, to be collected on the amount generated after winnings are paid out. The estimated $75 million in new taxes generated would be divided between the city and the state, with $50 million going to the state of Michigan and $25 million to the city of Detroit.

The Detroit News tried but failed to contact several government officials for their response to the MGM announcement.

“Liz Boyd, a spokeswoman for Gov. Jennifer Granholm, had no comment on the MGM layoffs,” and “a spokesman for Detroit Mayor Kwame Kilpatrick did not return a telephone call seeking comment,” according to published reports.

Budget Challenge Remains

On September 2, Granholm (D) and state legislative leaders agreed on a state budget that calls for tax hikes and spending cuts. The $300 million in spending cuts was trumped by $363 million in tax hikes—mostly from the state tobacco lawsuit.

Although total state spending currently is on the table, including possible cuts. While total state spending currently is $300 billion, the $300 in cash available, and $42 in accrued liability.

The governor’s office and area legislators to return a telephone call seeking comment,” according to published reports.

According to the MGM Grand, more than 95 percent of the taxes collected from upscale casino properties.

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Michigan Legislators Extend State's Gasoline Tax

by Russ Harding

Michigan lawmakers overwhelmingly approved a two-year gasoline tax extension on September 28, even though the reason for the tax no longer exists. House Bill 6074, which authorizes the extension, calls for the creation of a committee to study how to spend the approximately $100 million the seven-eighths cent-per-gallon tax will generate. Without the extension, the tax would have expired at year-end.

The seven-eighths cent-per-gallon tax is one of several taxes on gasoline in Michigan. The Senate's approval came on a voice vote. It followed an 87-13 vote of approval in the House on July 14.

Governor Supports Extension
A conference committee of House and Senate members is expected to iron out differences between the two versions, or the House could concur with the Senate version, before the legislation goes to Gov. Jennifer Granholm (D).

Last summer Granholm proposed extending the tax to help the state close budget gaps, so she is expected to sign the legislation into law. State Rep. John Moolenaar (R-Midland) was one of the House members who opposed the bill.

"I felt the tax was intended to clean up underground fuel tanks. Now it has moved more to a slush fund to balance the budget," Moolenaar said. "I believe the legislature has a responsibility to exercise proper oversight of funds and use them for their intended purposes when it is a dedicated fund."

"People who voted for the tax are concerned about the budget and the deficit, but one of the ways we got into this budget situation is that we haven't exercised state spending controls. This expands that problem."

STATE REP. JOHN MOOLENAAR R-MIDLAND

Program Bankrupt a Decade Ago
Michigan instituted the gasoline tax in 1993 to pay for the cleanup of leaking underground petroleum storage tanks. The intended beneficiaries were "mom and pop stores" and other small businesses, some of which were confronted with cleanup costs for underground tanks left behind by prior property owners.

But larger corporations that also had legitimate claims to the money were first to apply for the assistance. By the time most of the small businesses for which the program was designed submitted their financial requests, the cleanup fund financed by the gasoline tax had gone bankrupt.

A 1993 state audit of the program showed $110 million had been received but $250 million had been spent. The program was declared insolvent in 1995.

The bankruptcy was no surprise. Legislators knew the tax would not generate enough money to fully pay for the program, but they lacked the political will to impose a gas tax large enough to properly fund it. (I know this from firsthand experience, as I was deputy director of the Michigan Department of Natural Resources and then director of the Michigan Department of Environmental Quality during these years.)

Fraud charges also dogged the program. Many allegations centered on contractors who reportedly were paid for work they did not perform. Few of the allegations resulted in criminal charges, though, because the state lacked the resources to conduct field-compliance inspections.

In 1994 the legislature extended the gasoline tax another 10 years, to provide revenue to pay off bonds issued to cover cleanup claims. No new claims have been filed since June 1995.

Today there is more than enough money in the fund to pay off the bonds.

Tax Extension Sets Precedent
State Rep. Bruce Caswell (R-Hillsdale) opposed the legislation and said he believes Michigan legislators have made a mistake supporting the gasoline tax extension.

"My opposition was based on the feeling that, for the first time, we are using a tax on gasoline to pay for general fund operations. That is a bad idea," Caswell said. "I think if we're going to tax gasoline, the money should be going for transportation or fuel spill cleanups. I don't believe we should be using a tax on gasoline to fund the general fund."

Russ Harding (harding@mackinac.org) is senior environmental policy analyst for the Mackinac Center for Public Policy.
During this year’s election primary season, the issue of taxation was a decisive factor in races across the country. Numerous incumbents who had voted to raise taxes, or had refused to clearly rule out the option of tax increases, saw their careers come to an abrupt end.

Voters continued their rejection of politicians who taxed them at irregular rates, and they continued a trend that began earlier in the decade with voters taking to the polls to reject tax hikes by large margins at the ballot box.

**Anti-Tax Trend Firmly Established**

Two years ago, for example, Virginia voters rejected a sales tax increase in the Tidewater area and in the more liberal northern area of the state.

One year ago, after citizens rejected Alabama Gov. Bob Riley’s (R) $1.2 billion tax hike by a 68 to 32 percent vote, residents of Seattle, Washington, known for their liberal sympathies, rejected a measure that would have added a 10 cent tax to every espresso drink.

In California, years of fiscal profligacy by the state government led to the unprecedented recall of Gov. Gray Davis (D). He was replaced by actor-turned-politician Arnold Schwarzenegger, who ran on a no-new-taxes platform. Schwarzenegger kept his word. California’s 2004 budget did not include any tax increases.

In Oregon, a tax increase passed by the legislature in 2003 was repealed by referendum in March of this year.

The 2004 Oregon primary still felt the shockwaves of the defeated $1 billion tax increase, with most Republican House members who voted for it not re-running, and high-profile defeats in the primary, when a serious challenger was involved,” said Jason Williams, executive director of the Taxpayer Association of Oregon.

Voting for higher taxes cost the Republican Party nomination for State Sen. Jackie Winters, who sought a seat in Congress, and State Rep. Vic Backlund, seeking re-election. Key Republican representatives and supporters of the tax increase, including Rob Patridge, John Mabrey, and Patt Farr, decided not to run for re-election. Realizing voters were likely to withdraw their support because of their votes for the tax increase, State Reps. Max Williams and Lane Shetterly accepted high-profile jobs in Gov. Ted Kulongoski’s (D) administration.

**Tax-and-Spend Policies Costing Politicians Their Careers**

by Sandra Fabry

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**Other Taxers Kicked Out**

As Karl Peterjohn, executive director of the Kansas Taxpayer Network, reported in the September issue of *Budget & Tax News*, Kansas voters continued a “Kansas revolution” and rejected Bill Kassebaum and Cindy Neighbor, the two GOP legislators who led a recent, unsuccessful push for higher state taxes. Fiscal conservative incumbents Kay O’Connor and John Faber successfully fought off challenges from self-identified moderates.

Kansas Sen. Dave Corbin, chairman of the Senate Finance Committee, backed several tax increases and was
challenged in the Republican primary by former Rep. Peggy Palmer, an ATR pledge signer with a good record on taxes. Palmer won in a landslide.

In South Carolina, the leading newspaper, The State, endorsed a candidate who had refused to rule out tax increases over a candidate who had pledged to protect taxpayers’ interests. Republican primary voters in the Palmetto State did not listen to the liberal-leaning publication, choosing Joe Brady over the potential tax hiker and teacher union-backed Susan Brill.

In Georgia, a signer of ATR’s Taxpayer Protection Pledge, Sen. Joey Brush (R), learned the hard way that rhetoric is not enough. In April 2003 Brush voted to increase taxes by $1.8 billion, thereby breaking his commitment to taxpayers. He was defeated in this year’s primary. In a runoff primary for an open seat in the House, pledge-signer and former representative John Wiles faced Lance Cooper, a more liberal-leaning, union-backed candidate, who refused to sign the pledge. Wiles soundly defeated him.

Political Deal Backfired

In North Carolina, several pro-tax representatives learned raising taxes did not further their careers. The close election in 2002 had left the state House split 61-59 in favor of Republicans. Moderates, led by Rep. Richard Morgan, refused to back the GOP nominee for speaker, and Republican Rep. Mike Decker switched parties to make the split 60-60.

Morgan cut a deal with Democrats to share power under a co-speakership, and a large tax increase was passed under their joint rule. Conservative Republicans challenged at least 11 of the turncoat Republicans. Twelve-year incumbent David Miner, one of Morgan’s longtime allies, was defeated, as were two of his supporters in the House of Representatives, Reps. Rex Baker and Michael Gorman. Two of Morgan’s prominent foes during the tax debate, Reps. Sam Ellis and Russell Capps, defeated challengers who had sided with Morgan on the tax issue.

Decker switched back to the Republican party for the primary. Voters rejected him and chose his challenger, Larry Brown.

Strong Anti-Tax-Hike Message in Nevada

Again in September, voters took to the polls to deny tax hikers the chance to seek office in the legislature.

In Nevada, Gov. Kenny Guinn (R) worked with Democrats and a number of GOP members in 2003 to pass an $851 million tax hike. A number of Republican legislators held out by voting no, but ultimately they caved, one by one. The first representative to agree to the increase was Assemblywoman Dawn Gibbons. Like her colleague and tax-hike supporter Josh Griffin, she chose not to seek re-election.

“Politicians seem to think their constituents are stupid—but, as this year’s primaries have shown, there is no such thing as a permanently sleeping electorate. Taxpayers who their friends and foes are, and have chosen to cast their vote accordingly.”

GROVER NORQUIST, PRESIDENT AMERICANS FOR TAX REFORM

Assemblyman Bob Beers, a fiscal conservative and pledge-signer who did not give in and support the increase, sent tax-hike supporter Sen. Ray Rawson into early retirement. Although longtime conservative Ann O’Connell abstained on the tax increase vote because of a conflict of interest, the abstention was sufficient for a novice to challenge her successfully.

“Clearly, primary losses by Republican incumbents who supported and voted for tax hikes last year sent a loud and clear message to the Nevada GOP,” said Chuck Muth, a political commentator and chairman of the Nevada Republican Liberty Caucus. “Voters do not elect Republicans to raise their taxes. If they want to give the government more of their money, they can vote for Democrats. The Nevada primary results show that Republicans who wander too far off the No-New-Taxes ranch are likely to be permanently boot ed.”

Jim Clark, a vice chairman of the Washoe County Republican Party, put it more bluntly in a September 10 article in the North Lake Tahoe Bonanza: “Memo to Nevada politicians: Don’t raise taxes, and avoid scandal unless you have a day job, because you ain’t going to be in office long.”

Arizona, Wisconsin Send Taxers Packing

Arizona’s tax hike suffered a fate similar to that of their tax-hiking peers elsewhere. In the Grand Canyon State, 14 GOP representatives had teamed with Democrats to pass a big-spending budget for 2004-05. Four of the 14 were defeated in their primary elections. In the Senate, Senate Majority Leader Republican Rick Romley lost his seat to a Democrat. In the House, Tom McClintock (R) lost his seat to Democrat Rick Romley.

The vote for higher taxes has claimed a casualty in New Hampshire. Senate Majority Leader Mary Panzarella reportedly worked behind the scenes to sabotage an effort to pass a strong Taxpayers Bill of Rights (TABOR). Her efforts were leaked to the public, and voters rejected her bid for re-election, favoring pledge-signer Rep. Glenn Grothman.

Trend Likely to Continue

Virginia activists, residents, and taxpayer advocacy groups are already looking beyond November and turning up the heat on the tax hikers of 2004 who will face voters in 2005. Serious challengers who have committed themselves not to raise taxes have arrived.

The vote for higher taxes already has claimed a casualty there: State Sen. Ken Stolle (R), who voted for a $1.6 billion hike passed by the legislature in April 2004, sought the Republican nomination to replace retiring Congressman Ed Schrock. He lost to Rep. Thelma Drake, a pledge-signer who opposed the tax hike. According to Virginia Club for Growth President Peter Ferrara, “Grassroots sentiment among Republicans in the state is overwhelmingly against it, and those who voted for it, but business groups are already raising lots of money for the pro-tax incumbents.”

“Leading elected Republican officials are also saying that they will support all incumbents, but the Virginia Club for Growth will be taking the position that the party and other elected leaders must not stay out of primaries until a candidate is chosen, or else be tagged with the pro-tax label themselves,” Ferrara said.

The trend to reject tax hikes and the politicians who support them became quite evident this year, and it is measurable not only in primary victories for anti-taxers and the rejection of tax increases at the ballot, but also in another areas, as NTU Director of Government Affairs Paul Gessing pointed out.

“At the state level, with balancing the budget more of a necessity, the backlash against taxes can also be measured by the sheer number of Taxpayers Bills of Rights (TABORs) that are under consideration,” he said. “With dozens of states considering the adoption of TABOR, including Wisconsin, Tennessee, New Hampshire, and many others, we are hoping to push legislators to act proactively against the need for future tax hikes, not just to punish them after the deed has already been done. If the trend of punishing politicians for their ‘tax-and-spending’ votes continues and the TABOR is adopted on a more widespread basis, taxpayers will be the ultimate winners.”

Sandra Fabry (sfabry@ct.org) is a state government affairs associate at Americans for Tax Reform.
Let's Put Parents Back in Charge!

A GUIDE FOR SCHOOL REFORMERS
by Joseph L. Bast & Herbert J. Walberg, Ph.D.

At its root, the campaign for parental choice in education is about relying on capitalism to educate our children. Opponents demonize parental choice in education by tapping the public's confusion about competition, profits, and prices. The anti-choice campaign is really a thinly veiled anti-capitalism campaign. To counter this, we must educate millions of Americans about what capitalism is, how it works, and why it should be trusted in education.

Joseph Bast and Herb Walberg, president and chairman, respectively, of The Heartland Institute, make the case for parental choice in education by explaining and defending capitalism. Let's Put Parents Back in Charge! is the first effort to join these two subjects in one book since Milton Friedman proposed vouchers in Capitalism and Freedom in 1962.

To order, call The Heartland Institute at 312/377-4000, or visit Heartland's online store at http://www.heartland.org.

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Susette Kelo’s home along East Street in New London, across from Fort Trumbull State Park, is dwarfed by the Pfizer complex in the background.

“If jobs and taxes can be a justification for taking someone’s home or business, then no property in America is safe, because anyone’s home can create more jobs if it is replaced by a business, and any small business can create greater taxes if replaced by a bigger one.”

SCOTT BULLOCK, SENIOR ATTORNEY
INSTITUTE FOR JUSTICE

Condemning Homes, Businesses to Attract Tourists

The proposed New London development includes a luxury hotel, high-end condominiums, and private office space as enhancements to the Pfizer pharmaceutical company’s adjoining $270 million research facility. In 1978, the city had created a private development agency, New London Development Corp., and gave it eminent domain powers. Those powers now are being used to condemn much of the Fort Trumbull neighborhood for the development.

Fort Trumbull is a middle-income neighborhood along the Thames River, with Victorian-era houses and small businesses, some of which have been owned by multiple generations of the same family.

New London officials directed questions to Thomas Londregan, the city’s director of law, who did not respond.

However, in its filing, New London argued the condemnations will serve a public purpose by attracting tourists and higher-income residents, creating jobs, and generating more tax revenue.

“The record is clear that New London was a city desperate for economic rejuvenation,” the city said in its legal filing, which asks the high court to allow local government officials to decide what is a public purpose or use.

“The goal of the MDP [Municipal Development Plan]—to rejuvenate New London’s dying economy—clearly constitutes a public use and justifies the taking of the petitioners’ properties through eminent domain,” the city’s legal brief claimed. “To bolster its case, the town’s brief cites New London’s declining population, higher-than-average unemployment rate, and an old building stock. The filing also points out that the Connecticut Office of Planning and Management has designated New London a ‘distressed municipality.’

Neighborhood Residents Stand Firm

IJ attorneys say the New London Development Corp. (NLDC) began harassing Fort Trumbull neighborhood homeowners the day before Thanksgiving 2000, when it had the local sheriff post eviction notices on the homeowners’ doors. This summer the NLDC issued “back rent” notices to remaining homeowners—some of whom have owned their homes outright since 1958—claiming they owed the NLDC between $47,000 and more than $300,000 on their small properties.

Many Fort Trumbull neighborhood property owners have moved away under the city’s pressure, but Susette Kelo and several other property owners decided to stand and fight by suing the city.

“It is going to mean everything in the world if the U.S. Supreme Court saves my home,” Kelo said. “I’m so happy for myself and my elderly neighbors who just want to stay in their homes.”

Another lifelong resident, Matthew Dery, whose family has lived in New London for more than 100 years, told the Associated Press, “I’m not willing to give up what I have just because someone else can generate more taxes here.”

State Supreme Court Supported City

In March 2004, the Connecticut Supreme Court issued a 4-3 ruling upholding the city’s use of eminent domain in this instance. The court cited “the severe economic distress faced by the city, with its rising unemployment and stagnant tax revenues,” and ruled that even if there is nothing wrong with a home, business, or neighborhood, the government may use eminent domain to take land and give it to a real estate developer with the expectation of more tax receipts and other benefits to the city.

The Institute for Justice, however, says that is a clear abuse of eminent domain powers. Nationwide, according to IJ, more than 10,000 examples of threatened or actual eminent domain abuse were documented in 41 states in a five-year period from 1998 to 2002.

IJ lawyers say this is the first case to examine whether government’s eminent domain power may be used not for a public use (such as for a road) or even for a public “purpose” (such as for blight clearance), but to take one person’s home or small business so a bigger business can make more money off that land, generating more tax revenue for government in the process.

The case has drawn the attention of municipal leaders, real estate developers, property rights advocates, and others across the nation.

Political columnist George Will wrote about the case on September 19. “The question is: Does the Constitution empower government to seize a person’s most precious property—a home, a business—and give it to more wealthy interests so that the government can reap, in taxes, ancillary benefits of that wealth?” Will wrote.

“Connecticut’s court says yes,” Will continued, “which turns the Fifth Amendment from a protection of the individual against overbearing government into a license for government to coerced individuals on behalf of society’s strongest interests. Henceforth, what home or business will be safe from grasping governments pursuing their own convenience?”

Will pointed out that the Fifth Amendment says private property shall not be taken for public use without just compensation. Every state constitution also stipulates such takings shall be done only for “public use.”

“The framers of the Bill of Rights used language carefully; clearly they intended the adjective ‘public’ to restrict government takings to uses that are directly owned or primarily used by the general public, such as roads, bridges, or public buildings,” Will wrote.

Courts Divided on the Question

State supreme courts are divided on the issue of eminent domain abuse, according to IJ researchers.

In July 2004, the Michigan Supreme Court unanimously reversed a 23-year-old precedent known as Poletown, which had allowed local governments to take people’s homes and small businesses to hand over to General Motors.

The Connecticut Supreme Court’s ruling in the New London case four months earlier had been based in part on the Poletown precedent.

In 2003 the Kansas Supreme Court had approved the taking of private property for a Target Stores distribution center. Of the 15 state supreme courts that have ruled on the issue of private-to-private eminent domain, eight have ruled against the practice and seven have ruled such takings are permitted.

Chaos in the Law

“There is chaos at the state level when it comes to eminent domain law,” said Dana Berliner, an IJ senior attorney who litigates this issue and wrote the first national study on eminent domain abuse. “What rights you enjoy to your property depend entirely on the state in which you live. Arizonans are safe in their property, but Connecticut residents are virtually powerless against politically powerful developers, and in states like New Hampshire, there is no consistent interpretation of the law. In the confusion, people are losing their most precious possession—their homes.”

IJ President Chip Mellor said, “You can look at nearly every building ever constructed in this country, and it wasn’t built because of eminent domain. It was built because of private negotiation.

“The Court should restore some meaningful check on the abuses of eminent domain authority and provide some guidance to government officials, property owners, and lower courts in reviewing condemnations for private economic development,” Mellor said.

Steve Stanek (stanek@heartland.org) is managing editor of Budget & Tax News.
for smaller government have gone from promising to poor to uncertain in the 10 years since Republicans took charge of Congress.

Republicans promised a fiscal revolution when they were elected in 1994, ending decades of Democratic Party control of Congress. Instead, government has continued to grow. "The surge in the size of lawmakers' spending agendas occurred long before [the] September 11 [attacks] and has continued long afterward," said NTUF President John Berthoud. "The data show that issues such as war and homeland security serve as a cloak rather than an explanation for the return to deficit spending in Washington."

Legislative Sponsorship of Spending Bills
NTUF began the BillTally project in 1991 to study a stage in the fiscal policy development process the organization believed had received only superficial or occasional examination: legislative sponsorship. Although voting records provide one way of assessing budgetary principles, observers often cannot know the reasons behind votes.

For example, a vote against increasing Medicare spending could be made because the senator or congressman believes the bill provides too much funding ... or too little. By contrast, bill sponsorship provides a look at an individual's fiscal philosophy in its purest form, free from the influence of committees, party leaders, and rules surrounding votes.

For more than a dozen years, BillTally accounting software has compiled the cost or savings of all legislation introduced in Congress that would affect annual federal spending by at least $1 million. Agenda totals for individual lawmakers are developed by cross-indexing their sponsorship and co-sponsorship records with cost estimates for bills under rules that prevent the double counting of overlapping proposals. All such estimates are obtained from third-party sources or calculated from neutral data.

Proposed Increases Swamp Proposed Cuts
Among the findings for the first 18 months of the current Congress are the following:

- A total of 871 Senate bills and 1,147 House bills were identified as having an expected net impact of plus or minus $1 million. For each bill to reduce spending introduced in the Senate, there were 29 bills to increase spending. For each bill to lower spending introduced in the House, there were nearly 22 bills to raise spending.
- In the Senate, each $1 of proposed savings was overwhelmed by $18.16 in new spending. In the House, each $1 of proposed savings was swamped by $47.66 in spending increases.
- Twenty-two representatives sponsored more than five spending-cut bills each. Rep. Ginny Brown-Waite (R-FL) sponsored the most (11).
- Fifty-seven representatives did not sponsor any bills to lower spending, and 131 could find only one spending reduction bill to support among the 50 that were introduced.
- Representatives on average sponsored 68 bills to increase spending. Representative Martin Frost (D-TX) sponsored the most spending increases (275).
- Only one senator, Russ Feingold (D-WI), sponsored more than five spending-cut bills.
- Thirty-six senators did not sponsor any bills to cut spending, and 36 senators sponsored only one spending reduction bill among the 29 that were proposed.
- Senators on average sponsored 63 bills to increase spending. Sen. Hillary Clinton (D-NY) led the chamber with sponsorship of 174 spending bills.

Parties Differ Strongly
What became of GOP leaders’ 1990s promises to roll back the budget increases enacted under Democrats? Initially, there were signs of change. In the 104th and 105th Congresses (the 104th Congress was elected in 1994 and seated in January 1995), House and Senate Republicans boasted agendas that would, on average, reduce overall federal spending from the previous year.

Since then the typical GOP lawmaker’s sponsorship has trended upward, reaching record highs in the current Congress. Nonetheless, the difference between the parties’ approaches toward spending remains clear: The typical House Democrat sponsored or co-sponsored legislation that would increase federal outlays 14 times higher than legislation backed by the typical House Republican. The typical Senate Democrat’s net agenda was six times larger than the net spending agenda of the average Senate Republican.

Spending Cut Proposals Are on Rise
Although the average net spending agenda of both parties in the House and Senate is on track to reach new heights in this Congress, Berthoud noted there are some signs members may be regaining an interest in reining in spending.

While the number of spending-increase bills reached record highs in the House and Senate, spending-cut bills in the House also became more prevalent, for the first time since the 101st. A similar uptick occurred in the Senate, for the first time since the 104th Congress.

"Ten years ago, record deficits spurred the movement toward proposals to cut spending," Berthoud said. "Time will tell whether these signs become a full-fledged trend. If they do not, the continued demand for increases in the federal budget will be detrimental to efforts to reform the tax code and modernize Social Security, and it will jeopardize vows by both presidential candidates to cut the deficit in half."

by Demian Brady and Pete Sepp
There’s a saying that talk is cheap, but the analysis issued September 7 by the National Taxpayers Union Foundation (NTUF) shows that when politicians do the talking, it’s often enormously expensive for taxpayers.

Regardless of who becomes our next president, Republican incumbent George W. Bush or Democrat challenger John F. Kerry, an already-ballooning federal budget is likely to expand even more, according to the NTUF report.

Bush, Kerry Would Grow Budget
In accepting the nomination for president at September’s Republican National Convention, Bush spoke in favor of Social Security and medical liability reforms, which could save money, but his other proposals would carry a big price tag for taxpayers.

Bush called for nine policy initiatives that would affect federal spending. If enacted all at once, those programs would result in a $7.98 billion boost in federal outlays.

The $7.98 billion in net yearly spending Bush proposed that night would increase the budget by roughly one-third of 1 percent. Though not the extensive “laundry list” of items pundits predicted in advance of the speech, the proposals can still add up.

Bush’s call to boost Pell Grants would result in a $2.67 billion spending increase. His pledge to “make our country less dependent on foreign sources of energy” (by passing the long-stalled energy legislation) would add $4.78 billion to the total.

NTUF’s analysis did not examine the entirety of Bush’s fiscal policy agenda. Earlier this year, for example, the group determined that Bush’s State of the Union address contained $13.6 billion in net annual spending hikes. Among the items he outlined in January were reduced mandatory math and reading assistance in schools ($320 million), $200 million more for Pell Grants, and doubled funding for abstinence programs ($120 million).

It was the lowest budget increase

Presidential Candidates’ Proposals Would Bust Budget, Study Finds

Richest Senators Want to Spend Most
The partisan contrast appears even sharper among an even more elite congressional “caucus”—those House and Senate members with the greatest personal wealth.

The 20 senators at the top of Roll Call newspaper’s “richest” list called for a 77 percent bigger boost in federal budget outlays than the average for their 80 remaining colleagues. A larger share of well-off senators are Democrats than Republicans.

In the House the opposite held true: The 20 richest representatives sought federal spending increases that were 73 percent smaller than their less-wealthy counterparts. A larger share of well-off representatives are Republicans than Democrats.
Tax Fighter Wins Big over Wisconsin Senate Leader

by Steve Stanek
When Wisconsin Assemblyman Glenn Grothman decided to challenge State Senate Majority Leader Mary Panzer in the September 14 Republican Party primary election, he felt confident despite the power of her incumbency.

Though he expected victory, he did not expect his fiscally conservative message to give him such a big win. Grothman, an 11-year Wisconsin State Assembyman who ended up running unopposed for state senate in the November 2 general election.

“She was put in more than 20 years ago by those interests,” he said. “This is a very strong Republican area. [Grothman’s district extends north from the northern Milwaukee suburbs to Sheboygan and Fond du Lac, in southeast Wisconsin.] Her strategy was always to be quietly telling spending interests ‘I’m your gal’ and publicly saying ‘I am conservative.’ The kiss of death for her was when it became apparent the teacher’s union would help her. People had to wonder what she really was.”

First-Ever Primary Defeat of Party Leader
Grothman said his victory marked the first time in Wisconsin history that an Assembly member challenged and defeated the same party’s leader in the Senate. Grothman’s campaign and Milwaukee-area talk radio stations played up the differences between her rhetoric and her record.

“Milwaukee talk radio did play a role,” Grothman said. “The big issue was, ‘Is she really Republican? She is not. She called herself a pragmatic Republican, but she was really a liberal.’

Grothman pointed out that in addition to receiving support from Wisconsin public school teachers, Panzer also was supported by Planned Parenthood, the Milwaukee police union, various senior citizens groups, and local organizations interested in more park land.

“These groups all wanted more from government,” Grothman said. “There was also a feeling she didn’t push the Taxpayer Bill of Rights (TABOR) hard enough. Take her weak on that, put it with the people she was surrounded by, and that’s all you needed to know about her.”

Strong Emphasis on Spending Controls
In his post-election report for the Milwaukee Journal Sentinel, Steven Walters quoted Panzer as saying her style “as long period of time—you have to listen to all people, and have to adopt those conservative principles in a way that you govern more from the center.” Panzer told Walters the night of her defeat.

The article appeared September 15. Walters also noted, “Grothman’s fell Assembly Republicans did all they could to defeat Panzer, helping him with Door-to-door campaigning.” Grothman said they did this because Assembly Republicans viewed Panzer “as an obstacle to their desire to dramatically—and quickly—act to control state and local spending.”

Grothman campaigned as a strong advocate of spending controls. He linked state spending to Wisconsin’s heavy tax burden. That argument received a boost in May when the Tax Foundation issued a report ranking Wisconsin as having the sixth-heaviest combined state and local tax burden in the nation.

Watered-Down TABOR an Embarrassment
Grothman said a tax revolt is brewing in Wisconsin, which made the TABOR a big issue.

The TABOR would be a state constitutional amendment to hold state spending increases to inflation plus population growth. Grothman said after it became apparent he was scoring points against Panzer because of his strong advocacy of TABOR, Panzer reluctantly endorsed it.

A watered-down version of TABOR passed a Senate Judiciary Committee July 27 but never came up for a full vote.

The Senate committee version was so weakened that Assemblyman Frank Lasee (R-Bellevue), who had worked six years for TABOR, ended up working against the bill.

Among other things, the committee-passed version would have allowed the state to cut local aid and local governments to raise taxes to make up the difference, according to Lasee. It also would have allowed the state to impose unfunded mandates on local governments and to move more than $4 billion of federal money off-budget without changing the state’s spending authority, effectively enabling it to spend another $4 billion per year.

Local governments also could have created new tax and fee districts, such as drainage districts and mosquito abatement districts. Spending could have been shifted to those new districts without lowering the spending authority of the local governments that created them. And the new tax and fee districts would not have been subject to the TABOR spending limits.

Grothman said when he, Lasee, and other legislators publicized the problems with the senate version of TABOR, Panzer’s Senate majority leader position cost her votes.

“I hope other legislators took note of this race,” Grothman said. “A 79 to 21 percent margin is huge, especially against an incumbent.” Running unopposed, Grothman will take office with the next legislative session.

Steve Stanek (stanek@hearland.org) is managing editor of Budget & Tax News.

Candidates
Continued
NTUF had tracked among the past five presidential State of the Union speeches.

The NTUF report noted Kerry’s rhetoric on behalf of fiscal restraint belies his spending proposals, which would carry a much higher price tag than Bush’s. NTUF recently analyzed Kerry’s platform and determined federal outlays would grow by $226 billion during the first year of his presidency alone if all 70 of his fiscal policy pronouncements were enacted at once.

Large Increases Already Built in
Another place to look for costly words is in official government documents. According to the Historical Tables of the Bush administration’s latest annual budget, from Fiscal Year 2001 through Fiscal Year 2005, total federal outlays are on track to rise by $536 billion, or 29 percent. Although it is true September 11 has placed new demands on the federal budget, Bush and his colleagues in Congress have boosted spending in many areas that have nothing to do with the military or homeland security.

Between FY 2001 and 2005, Labor Department spending is up 43 percent, Energy Department funding has increased 38 percent, and Education Department outlays have zoomed 80 percent.

It has been said Americans would prefer less talk and more action from their elected officials. And as the data show, talk isn’t cheap. The President received a loud applause when he said his plan would restrain federal spending. The NTUF study shows both candidates owe the taxpayers an explanation about how their rhetoric squares with their policy proposals.

Demian Brady (dbrady@ntu.org) is senior policy analyst and Pete Sepp (psepp@ntu.org) is vice president for communications with the National Taxpayers Union Foundation, the nonpartisan research arm of the 350,000-member National Taxpayers Union.

For detailed studies of the presidential candidates’ fiscal policies, visit http://www.ntu.org.
Florida Tax Appraisers Ask for Relief for Storm Victims

by Marvin G. Cortner

Osceola County Appraiser Bob Day echoed the sentiments of many county assessors around the state in September when he said some tax relief should be offered to owners of Florida homes and businesses damaged by the summer’s storms.

In Orange County, according to published reports, property appraiser Bill Donegan is also calling for relief and has said his county could absorb the lost revenue.

Such tax relief cannot be granted locally; only action by the Florida legislature can make it happen.

Florida’s county appraisers re-evaluate property every January 1, and that is the basis of an owner’s property tax bill. Damage that occurs after that date cannot be recognized on the current tax rolls. Tax bills in Osceola County will go out in November.

Without some adjustment, property owners hit hard by the hurricanes would be obligated to pay full taxes on homes or buildings that no longer exist or were heavily damaged and are either unusable for business or uninhabitable as a residence.

“I think something should be done, and I’ve sent a letter to our legislators,” said Day.

Cuts Could Affect Budgets

But Day cautioned there is a flipside to property tax relief.

“Damage from the hurricanes is huge here, and the question is how much can county, school district, and city coffers do without,” said Day.

In 1988 Osceola County granted a tax abatement for properties damaged by a tornado, but that was the result of special legislation. At the time, homeowners who lost use of their home for at least 30 days, for example, saw adjustments on their tax bills.

Day said the abatement for 1998 was set up in twelfths—if a resident lost use of his home for two months, for example, that would be a one-sixth abatement. Any abatement approved by the Florida legislature would be for 2005 taxes.

“The latest estimates I’ve heard are that we had $300 million in damage here in Osceola County to residences and buildings used for commercial purposes,” said Day. “That doesn’t include damage to outbuildings, such as garages or pool cages.”

Appraisers Call for Special Session

If there is no special legislation forthcoming, Day said buildings that had not yet been repaired by January 1, 2005, would have reduced assessments. However, no reduction would be given for buildings damaged by the storms but repaired before that date.

If a property had an unattached building that was destroyed by the storm and not replaced, that would mean a reduced tax bill in November 2005, Day said. However, if buildings are improved to more than 125 percent of their original value, property tax assessments will climb.

Day, who is on the board of directors of the Florida Association of Property Appraisers, said the association already has asked Gov. Jeb Bush to call a special legislative session to provide tax relief.

The association is also asking that the state or federal government reimburse counties for any reductions in revenue resulting from tax relief.

Marvin G. Cortner (mcortner@osceolaonlinegazette.com) is a staff writer for the Osceola News-Gazette, where an earlier version of this article appeared on September 16. Used by permission.

Virginia Republicans Propose Trust Fund for Transportation Improvements

by Christi Bearden

Thirteen northern Virginia Republican lawmakers have proposed a revolving trust fund to leverage tax revenues to provide more than $5 billion over the next 20 years for road and transit construction.

Under the Virginia Transportation Act of 2000, one-third of the revenues from the state’s insurance premium tax are designated for the Prioritization Transportation Fund. However, for several years, legislators have diverted that money to balance the budget, which is now in surplus. Many business and community leaders have called for policymakers to address the diversion of funds.

Borrowing Against State Surplus

Backers propose using the current surplus in the state’s general fund—estimated at about $700 million—to borrow against future revenue generated by taxes on insurance premiums. This would jump-start critical transportation improvement projects throughout the Commonwealth and provide a designated stream of funding for future projects.

“For too long, a top taxpayer priority—transportation—has been neglected in Richmond,” stated Delegate Jeff Fredericks (R-Woodbridge). “The revolving trust fund would finally address this problem. We have a real opportunity to find a solution in 2005—using creative solutions without raising taxes.”

Joining lawmakers in support of the proposal were representatives from northern Virginia business groups, including the Fairfax County Chamber of Commerce, Greater Washington Board of Trade, Northern Virginia Transportation Alliance, Northern Virginia Technology Council, and Dulles Area Transportation Alliance.

“I think it has merit because it’s building upon a previously identified revenue source,” William Lecos, president and chief executive of the Fairfax County Chamber of Commerce, told the Washington Post.

Opponents Warn of Precedent

Opponents argue the plan will create fiscal difficulties for the Commonwealth by creating a borrow-now, pay-later mentality. It is also unclear whether overall state tax revenue will continue to grow sufficiently to fund the plan. If revenue were to lag, the debt for the transportation fund would have to be paid before other programs such as education and health care.

The 2005 budget for the Virginia Department of Transportation is $2.9 billion.

“Only 17 percent of the budget is left for road projects. The rest is for maintenance,” said Bob Grow, director of government affairs at the Greater Washington Board of Trade. “We are very interested in listening to any proposal regarding new transportation funds. We have a $13.2 billion shortage of funding for projects in our region. In Northern Virginia it’s $4 billion.”

Grow said his organization views the proposal as a useful first step.

“We’ve not embraced the entire proposal, and they’ve not thought out all details either. We would prefer to see a dedicated source of funds that comes in every year without having to go out on a limb. But we applaud the creative thinking on this.”

He said Virginia has some of the nation’s worst traffic congestion and needs road construction to alleviate the problems.

He does have concerns, though, about Virginia’s AAA bond rating.

“Our bonding power is stretched,” Grow said. “That’s something to be mindful of.”

Christi Bearden (christi@va52.com) is a legislative aide for Virginia Delegate Jeff Fredericks.
Local Taxes a Key Factor
State income taxes per capita upstate are about 22 percent above the national average, which means upstaters pay about $800 million a year above the norm. But the disparity in local taxes is even higher: about 55 percent above the national average.

That costs upstate taxpayers about $4.2 billion a year more than they would pay if they paid local taxes at the national average per capita, the report noted.

The difference includes higher property taxes (more than $3 billion extra per year) and higher local sales taxes (more than $1.3 billion extra per year).

“Solving upstate’s high tax problem requires two key things: downsizing local governments and cutting, rather than just shifting, the cost of Medicaid. Neither step will be easy. But both are essential.”

“In Monroe County, for example, property taxes collected by all units of local government (the county, school districts, Rochester, towns, etc.) in 2001 added up to almost $1,400 per capita—about 70 percent above the national average,” the report found. “Property taxes in Albany County appear to have been about 75 percent above the national average per capita. In Erie County, about 42 percent; in Onondaga County, about 48 percent; in Oneida County, about 25 percent.

Payroll, Medicaid Costs Drive Taxes Up
Upstate’s taxes are so far above average because spending is higher, especially in two key areas: government payroll and Medicaid, according to the report.

Upstate local governments have some 95,500 more employees than they would have if they merely matched the national average ratio of local government workers to population, the report noted. This excess of more than 25 percent costs upstate taxpayers more than $4 billion extra a year.

New York’s Medicaid program costs upstate taxpayers about $1 billion more a year in state and local taxes than it would if it matched the national average program per recipient.

As of 2001, total Medicaid spending upstate was about $32 billion more than the program would spend there if New York reduced its cost per recipient to the national average. In other words, if New York held its Medicaid spending to the national average, upstate taxpayers would save about $1 billion in their state and local taxes. (The other $1 billion in savings would go to the federal government.)

State and Local Action Essential
Cutting high local spending and taxes will require action both in Albany and locally, the report noted. Locally, “serious and difficult initiatives”—such as consolidation of governments or government services—will be required. And “Albany, meanwhile, must reform its ‘mandates’—the state rules that help drive up so many costs at the local level—from Medicaid to collective bargaining to the restraints on governmental consolidation, downsizing and/or privatization,” the report concluded.

The report highlighted an irony in the debate about managing the state’s burden of Medicaid spending: the fact that a state takeover of Medicaid spending would actually cost upstaters even more money.

“The most often-recommended ‘cure’ for the Medicaid burden on upstate taxpayers is for the state government to take over the local share of the cost, thus easing the burden on the property tax,” the report said. “Ironically, however, this would backfire on upstate taxpayers as a whole. Unless the program were drastically reformed first, upstate taxpayers would end up paying at least $250 million more in state taxes than they would gain in local tax relief.”

A state takeover of the local share would tend to shift money to New York City and, based on 2001 spending and tax patterns, increase upstate taxpayers’ state taxes by about $1.08 billion while decreasing their local taxes about $815 million, for a net loss of more than $250 million, the report noted.

“Solving upstate’s high tax problem requires two key things: downsizing local governments and cutting, rather than just shifting, the cost of Medicaid,” the report concluded. “Neither step will be easy. But both are essential.”

by Matthew Maguire
The Public Policy Institute of New York State, a nonprofit think tank affiliated with the Business Council of New York State, has launched a new weblog focused on economic issues in upstate New York and related policy questions.

“We wanted to create a forum where New Yorkers and those who care about New York can read and share ideas about the Upstate economy and what New York should do to help it,” said David F. Shaffer, president of the institute.

“Whenever state policymakers consider—or fail to consider—an issue that affects Upstate’s prosperity, we get calls and emails from individual taxpayers and from proprietors of businesses struggling to compete. This is a forum for sharing these comments and questions from individual New Yorkers.”

The blog, which the organization has designed as a lively mix of institute postings and comments from the public, is available to anyone who visits http://www.upstateblog.net. Institute staff began posting items on the blog in mid-August.

The blog is to be updated most days by institute staff. Typical entries include comments and questions from New Yorkers who write about the economy and related policy issues, summaries of and links to relevant newspaper stories, and other comments and facts on policy issues.

Daily summaries of blog postings are emailed, free of charge, to anyone who sends a request to moderator@upstateblog.net.

In just the first few weeks of postings, the blog’s daily emailed summary has attracted a range of subscribers, including key New York State journalists, business leaders, state government officials, and academics.

“The ideal contributor to the blog is anyone anywhere who wants to offer a relevant comment, question, idea, or link,” the blog says in describing itself. Political figures and issues may be mentioned from time to time in the material, but the blog focuses on issues as opposed to individuals. The blog also provides links to other relevant Web sites.

Matthew Maguire (matthew.maguire@bcnys.org) is director of communications at the Public Policy Institute of New York State.
By John W. Skorburg

Residents of picturesque Palestine, Texas, went to the polls on September 11 and approved, by a 52 to 48 percent vote, the “legal sales of beer and wine for off-premises consumption only” throughout the town.

Parts of conservative Palestine have been open for the sale of beer and wine since the early 1960s, but areas added to the town since then were not automatically allowed to sell alcohol.

A group calling itself “Progress for Palestine” organized and collected more than 1,500 signatures to call for a vote on the issue, according to spokesman Steve Sussdorf.

“It’s not [only] about the sale of alcohol, it’s about fair play and economic development,” Sussdorf told Megan Middleton, a staff reporter with the Morning Telegraph in nearby Tyler. “I feel like now it will open Palestine up more to other grocery stores, to other restaurants, and that, in turn, will bring other people and help our town grow.”

City’s Been “Wet” Since 1960s

Sussdorf said in an interview with the Telegraph that Palestine voted to go “wet” in the 1960s, meaning the sale of alcohol would be allowed. But he said he discovered as the city expanded its boundaries, newer areas were not automatically “wet.”

“I found out that as a city grows, just because they were voted wet to begin with at a certain time, any new annexation or additions to the city came in as dry,” he said. “They do not automatically go wet. We are doing this election to open up the new part of town ... to an equal footing with the old part of town,” he said.

Sussdorf is in the real estate business. He told Morning Telegraph reporter Middleton he had encountered clients, primarily convenience and grocery stores, that would not locate in Palestine because “for every dollar that is lost on beer and wine sales, they lose three dollars on groceries.”

“We lose a lot of dollars of our money to Tyler,” he said.

“Southern Belle” of Texas

Palestine is the county seat of Anderson County, some 108 miles southeast of Dallas and 150 miles north of Houston, with a population of about 20,000, according to the 2000 census.

The town features numerous restored Victorian-style houses, yards landscaped with magnolia and dogwood trees, and downtown specialty shops and antiques stores in buildings that date from the early 1800s.

John W. Skorburg (skorburg@heartland.org) is associate editor of Budget & Tax News.

New York Governor Vetoes $1.8 billion from Budget

Pataki warns major deficit looms for 2005

By Robert Ward

New York Gov. George Pataki vetoed $1.8 billion from the budget approved by the state legislature August 11—more than four months past deadline—and said the state will still face a projected four months past deadline—and said the state will still face a projected $434 million in new operating expenses over the next three years.

On September 20, the Democrat-controlled state Assembly tried and failed to override some of the vetoes. A later override vote remains possible.

The budget sent to the governor totaled $101.6 billion. That budget would have been out of balance by nearly $700 million in the current 2004-05 fiscal year, and would have created an out-year gap of $6.3 billion, according to the governor.

The vetoes reduced the budget total to $101.3 billion and reduced the current 2004-05 fiscal year’s gap to $434 million, reducing the projected out-year gap to $6.1 billion, according to Pataki.

Daniel B. Walsh, president and CEO of the Business Council of New York State, had urged the governor to veto what he characterized as the legislature’s excess spending and push for Medicaid reform to help restrain spending.

“With no reform, Medicaid costs continue to rise at unsustainable levels,” Walsh told the governor in an August 18 letter. As a result, businesses and homeowners in many counties will see higher property taxes in just a few months, and lawmakers will face “enormous pressure” for state-level tax increases in 2005, he said.

Pataki likewise noted the need for Medicaid reform. “The budget that was presented to me completely fails to address the critical issue of Medicaid reform and many other areas where we know new reforms are sorely needed,” the governor said.

In most cases, the governor said, the state Senate was willing to enact such measures, but the Assembly leadership blocked the reforms from being included in the budget that was ultimately adopted.

Unfortunately, the governor added, the failure to act is not something that can be vetoed.

Pataki and the legislature are awaiting action by New York’s highest court, the Court of Appeals, on two cases relating to the balance of budget powers between the executive and legislative branches. Those cases, expected to be heard this fall, could have a major impact on the state’s fiscal practices in coming years.

The legislature usually seeks to spend more than the governor wishes, regard
dess of whether the chief executive’s office is held by a Republican or Democrat.

Robert Ward (bob.ward@bcnys.org) is director of research at the Public Policy Institute of New York State.

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States OK Sunday Spirits Sales to Increase Tax Revenue, Consumer Convenience

By Randall Ford
Ohio and Kentucky recently joined the growing list of states that have rolled back Sunday spirits sales prohibitions in order to increase consumer convenience and generate additional tax revenue.

In the past two-and-a-half years, 11 states have made Sunday sales of alcohol legal, according to the Distilled Spirits Council, the national trade association that has lobbied in support of such changes.

Within the past year, Idaho, Kansas, Kentucky, New York, Ohio, Rhode Island, and Virginia have begun allowing retailers to sell spirits products on Sunday, bringing to 32 the total number of states allowing such sales. Ohio became the most recent to make the change, when liquor stores began selling spirits on Sunday, September 19—a move that proved very popular with Buckeye State retailers and customers.

“This is good news for our customers and our business,” said Marc Zkiab, who co-owns Simones Beverage & Deli in Lakewood, Ohio.

Alcohol Sales Raise Tax Revenue
Peter Cressy, president of the Distilled Spirits Council, said more states are taking a closer look at Sunday spirits sales as a way to raise revenue without having to raise taxes on consumers and the hospitality industry.

“Allowing seven-day liquor sales brings convenience to consumers and the hospitality industry. “Within the past year, Idaho, Kansas, Kentucky, New York, Ohio, Rhode Island, and Virginia have begun allowing retailers to sell spirits products on Sunday, bringing to 32 the total number of states allowing such sales.”

Randall Ford (randall.ford@discus.org) is communications manager of the Distilled Spirits Council of the United States.

State Alcohol Sales Roundup
Beer, wine, spirits remain tax-hike targets in some locales
While some states are dropping prohibitions against Sunday liquor sales, making their purchase more convenient, state and local governments are also continuing their efforts to increase alcohol taxes, making the products less affordable. On October 8, the Distilled Spirits Council of the United States (DISCUS) issued this roundup of alcohol tax issues for its members.

Illinois
Chicago Mayor Proposes Local Alcohol Tax Increase
Chicago Mayor Richard M. Daley (D) is asking the city council to consider a variety of tax increases to address the city’s $220 million budget shortfall, including a 10 percent increase in the city’s beverage alcohol tax rates. The alcohol tax proposal would increase the city of Chicago’s tax on distilled spirits to $1.65 a gallon from the current rate of $1.50 per gallon. The city tax on wine would go to 55 cents a gallon from the current rate of 50 cents and beer to just over 17 cents a gallon from the current 16 cents.

The Chicago city tax on alcohol is applied in addition to the state tax ($4.50 a gallon on spirits) and the Cook County tax ($2 a gallon on spirits).

The proposed tax increases also are on top of a variety of other tax increases. Daley has said he would consider, including property, telephone, hotel, sales, parking, cigarette, tire purchase, amusement, gasoline, natural gas, and soft drink taxes.

Pennsylvania
Proposed Liquor Tax to Pay for Hurricane Damage
Rep. Gaynor Cawley, a Democrat from Scranton, has introduced HB 2879, which includes a new 1 percent tax on distilled spirits and a 5-cents-per-pack tax increase on cigarettes, to help pay for damage caused by Hurricanes Ivan and Jeanne.

According to Gaynor, revenues generated from the taxes will finance efforts to reinforce stream walls and buy homes and businesses in high-risk flood plains. The proposal is not supported by Gov. Ed Rendell (D), and its chances of passage appear slim.

According to the governor’s office, he is reluctant to raise taxes again after recent increases in the income tax and cigarette tax.

Texas
School Funding Decision Pressures Legislature to Act
In a decision that could have major implications for the state’s tax structure, District Court Judge John Dietz ruled in mid-September that the Texas school funding system is unconstitutional. Dietz gave the legislature a deadline of October 2005 to devise an equitable school financing plan.

While the state is expected to file an appeal to the Texas Supreme Court, the issue of school funding will need to be addressed by the legislature. Beverage alcohol taxes are expected to be considered when the legislature takes up the issue again.

Gov. Rick Perry (R) and legislative leaders have pledged to work on a school finance plan when the regular session begins in January. Perry has left open the possibility of a special session this year if consensus can be reached between his office and the legislature. Legislators were unable to reach agreement on a school finance plan during a special session earlier this year.

Vermont
State Announces Increase in Spirits Mark-up
The Vermont Department of Liquor Control increased the state’s spirits mark-up by 1.5 percent effective November 1. The department is not required to hold a public hearing or make prior notification. The mark-up was last changed in 1994 and is set at 78.6 percent for vodka and tequila. The mark-up for other spirits products depends on how much they would cost for a 9-liter case.

The department told DISCUS the increase became necessary because of continuing legislative diversion of their revenue to the State General Fund.
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* Source: Bureau of the Public Debt, U.S. Department of the Treasury

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This is the National Debt.*

$7,217,554,314,339.98

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* Source: Bureau of the Public Debt, U.S. Department of the Treasury

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<th>Charge $_______ to my Visa MC Am Ex</th>
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