Ill. Governor Seeks $33B Tax Increase

By Steve Stanek

Illinois Gov. Rod Blagojevich (D) has proposed the largest tax increase in the state’s history as part of a plan to raise nearly $33 billion in new revenues. The state’s total budgeted spending for the current fiscal year (ending June 30) is $56 billion. Blagojevich proposes spending $60 billion in the upcoming fiscal year, an increase of more than 7%

Mo. Judge Pulls Tax Cut from Ballot

By Steve Stanek

A judge in St. Louis County, Missouri has ruled that trustees for a local fire protection district may ask voters to raise the district’s maximum tax rate, but not to lower it.

Judge James R. Hartenbach ordered a tax cut referendum off the April 3 ballot.

The referendum would have given voters the chance to reduce the maximum tax rate.

Taxpayers Cry Foul as AMT Affects Millions of Americans

By Tim Carlson and Brian Trauman

The past three Congresses, the Alternative Minimum Tax (AMT) has morphed from a little-known “stealth tax” into a widely known, highly discussed, and almost universally despised parallel income tax system with unintended consequences. With millions of taxpayers now being affected by the AMT, the current, 110th Congress likely will focus more attention than the 109th and 108th Congresses

AMT p. 17
A rainbow is far more than just two colors — and politics is far more than just left and right. That’s why millions of Americans say labels like “liberal” or “conservative” don’t accurately describe their political identity.

No wonder. A simple line from “left” to “right” just isn’t inclusive enough to contain every shade and hue of political belief. That’s where the World’s Smallest Political Quiz comes in. It’s a better “map” of politics. Answer 10 questions about personal and economic issues, and the Quiz pinpoints your political identity on its innovative political “Diamond Chart” that includes liberal, conservative, libertarian, statist, and centrist.

The World’s Smallest Political Quiz has been praised by the Washington Post, and more than 7.7 million people have taken it online. What’s your real political identity? Take the Quiz. For each statement below, circle A for agree, M for maybe/not sure, and D for disagree. Then find your position on the chart.

### How do you stand on PERSONAL issues?
- Government should not censor speech, press, media or Internet. A M D
- Military service should be voluntary. There should be no draft. A M D
- There should be no laws regarding sex between consenting adults. A M D
- Repeat laws prohibiting adult possession and use of drugs. A M D
- There should be no National ID card. A M D

**PERSONAL SCORING:** Take 20 for every A, 10 for every M, and 0 for every D: _______

### How do you stand on ECONOMIC issues?
- End “corporate welfare.” No government handouts to business. A M D
- End government barriers to international free trade. A M D
- Let people control their own retirement: privatize Social Security. A M D
- Replace government welfare with private charity. A M D
- Cut taxes and government spending by 50% or more. A M D

**ECONOMIC SCORING:** Take 20 for every A, 10 for every M, and 0 for every D: _______

### Find Your Place on the Chart
Mark your PERSONAL score on the lower left scale; your ECONOMIC score on the lower right. Then follow the grid lines until they meet at your political position. The chart shows the political group that agrees with you most. LIBERALS tend to value personal freedom. CONSERVATIVES tend to value economic freedom. LIBERTARIANS value both. STATISTS are against both. CENTRISTS tend to hold different values depending on the issue.

TO LEARN MORE ABOUT THE QUIZ, VISIT: [www.TheAdvocates.org](http://www.TheAdvocates.org)

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Rhode Island Lawmaker Wants Higher Beer Tax

By Steve Stanek

Rhode Island beer drinkers will see the price of their favorite brews go up if a state lawmaker who wants to double the state’s excise tax on beer gets his way.

Rep. Edwin R. Pacheco (D-Burrillville) has proposed the tax hike to fund treatment programs for alcoholics, but opposition is rising up—including from fellow Democrat lawmaker Jan Malik (D-Warren), who won’t be able to vote on the tax hike because he owns a liquor store.

“Rhode Island beer drinkers will see the price of their favorite brews go up if a state lawmaker who wants to double the state’s excise tax on beer gets his way.”

Malik’s Fine Wine & Spirits in Warren sits near the border with Massachusetts, where there is no sales tax on alcoholic beverages. Rhode Island charges a 7 percent sales tax on alcohol and most other items sold at retail.

“[Pacheco] is saying he would raise the price [on a case of beer] 65 cents. Add the sales tax, and we’d be about $2.02 higher than Massachusetts,” Malik said.

“I’ll sell a bottle of Dewar’s Scotch at $29.99, and with our sales tax it comes to $32.08,” Malik noted. “They’re still selling that bottle at $29.99, with no sales tax, three miles up the road in Massachusetts. It’s the same with beer. We’re already at a disadvantage, and this tax hike would make it worse.”

Lost Sales Feared

Malik said liquor stores near the border with Massachusetts likely would lose sales. He cited declines in cigarette sales at stores near the border with neighboring states as a result of Rhode Island’s $2.34 per pack cigarette tax, highest in the region, as evidence that consumers will drive a few miles more to save money.

“A hike in the beer tax will put us at a further disadvantage,” Malik said. “We have a $110 million deficit this year and will have a $360 million deficit next year. We have to stop the way we do business here. Instead of raising taxes, we should give some breaks to attract businesses.”

Benefits Predicted

“Raising alcohol taxes in order to raise prices is a powerful means of reducing underage drinking, reducing heavy and frequent drinking among young people, reducing transmission of venereal diseases, improving educational outcomes,” said Kenneth Moritsugu, director of the Drug and Alcohol Treatment Association of Rhode Island.

Benefits of raising taxes, we should give some breaks to attract businesses.”

Pacheco’s proposal has supporters, including the Drug and Alcohol Treatment Association of Rhode Island.

George Hacker, director of the Alcohol Policies Project at the Center for Science in the Public Interest, which advocates higher alcohol taxes and other measures to stem alcohol abuse, addressed the Drug and Alcohol Treatment Association in February and spoke in favor of raising the tax.

Doubts Raised

“Raising beer taxes won’t reduce underage drinking and binge drinking among college students in any noticeable way,” said Sean Parnell, vice president of external affairs at The Heartland Institute. “Teens and college students aren’t as sensitive to price increases as adults, because their incomes are almost entirely discretionary. Hiking excise taxes on beer and other goods generally hurts the poor the hardest. Just about everyone on the right and left understands these are regressive taxes.”

In March, acting U.S. Surgeon General Kenneth Moritsugu appealed to Americans to do more to stop underage drinking, laying out recommendations for state and local governments, school officials, parents, other adults, and young people. His recommendations did not include hiking taxes on alcohol.

Gary Sass of the Rhode Island Expenditure Council said he is skeptical of the tax hike proposal for two reasons.

“Obviously, when you earmark money for a specific purpose, as Rep. Pacheco proposes, you reduce the ability to direct money where it may be more badly needed,” Sass said. “The second reason to be skeptical is because of the economic impact. You have to be concerned about increasing the tax on a consumer product when somebody could drive five minutes and pay a lower price.”

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Illinois

Continued from page 1

percent. The governor presented his plan on March 7 in a State of the State address that featured populist anti-business rhetoric and calls for massive new spending programs, including universal health care, billions more dollars for K-12 public education, and billions more for transportation. “I stand with the people,” Blagojevich said in outlining his plan. “For decades, it’s been the middle class and the working families of Illinois that have shouldered more and more of the tax burden. And while they’ve paid more, the wealthiest corporations in our state have paid less and less,” Blagojevich alleged. “The impact of this imbalance weakens our economy, burdens our families, and holds our state back.”

Huge Budget Deficit

The governor’s plan includes $1.5 billion more for K-12 education, with another $500 million for school construction. Blagojevich also would spend $600 million more on colleges and universities.

Blagojevich said his proposed Illinois Covered program would provide state-subsidized health insurance to an estimated 1.4 million residents who lack it. Anyone earning up to four times the poverty level—an individual earning $40,000 or a family of four with an income of $82,000—would be eligible. The plan also would require all health insurers to issue comprehensive coverage to uninsured residents, regardless of their medical conditions.

Blagojevich proposed the additional spending despite a report issued one week earlier by state Comptroller Daniel Hynes (D). The Hynes report showed Illinois with a current budget deficit of $2.3 billion.

Additional Borrowing

Blagojevich proposed new revenues that would include more than $6 billion from a gross receipts tax on most businesses in the state. The tax would be 1.8 percent on gross receipts for services and 0.5 percent on transactions of goods.

The governor also projected about $1 billion more in revenue from the imposition of a payroll tax on employers who do not offer their employees health insurance.

Blagojevich also proposed a long-term lease of the state lottery, which his office estimates will bring in $10 billion. In addition, he would have the state borrow $16 billion to put into the state government pension system. This would come on top of $10.1 billion the state borrowed in 2003 to reduce unfunded pension liabilities.

Critics of the governor say he should not count borrowed money as revenue, because it must be repaid with interest.

Fellow Democrats Skeptical

The governor’s speech received a cool response, even from fellow Democrats. Representative Jack Franks (D-Woodstock) said the plan does nothing to solve the state’s structural problems and may make them worse. “My thought as I listened was he is throwing money at problems instead of requiring accountability,” Franks said. “It’s ridiculous. Unless we require agencies to defend each line item, we’ll never get the budget under control. We’ve got to fix the structural deficit before we fix anything else.”

Michael Madigan (D-Chicago), Illinois’ powerful House speaker, declined to comment on the plan but had previously voiced serious doubts about leasing the state lottery.

Business Groups Angered

Virtually all the state’s major business organizations openly oppose the plan, particularly the gross receipts tax. “Governor Rod Blagojevich’s budget plan for state taxpayers is a reckless and irresponsible affront to every employer and worker in Illinois,” said Doug Whitley, president and CEO of the Illinois Chamber of Commerce. “If this plan is approved, Illinois will most certainly lose jobs and businesses to other states for lack of regard for the economic consequences of his political ambitions for big government.”

Gregory Baise, president and CEO of the Illinois Manufacturers Association, appeared on Chicago public television with John Filan, the governor’s budget chief, a few hours after Blagojevich’s speech. The two men agreed on almost nothing.

In his March 7 State of the State address, Illinois Gov. Rod Blagojevich relied on populist anti-business rhetoric to propose a $33 billion tax increase and $4 billion in new spending.

A Fair Tax Plan

“We think this is a very fair tax plan,” Filan said. He claimed businesses have been shifting their obligations by avoiding paying the state’s corporate income tax.


Faine responded by saying businesses pay more than $1 billion in state unemployment insurance taxes and numerous other taxes and fees aside from the corporate income tax, and added that businesses fund nearly half of Illinois spending.

Democrat Dominance

Although Democrats dominate both chambers of the General Assembly and could pass some of the package without Republican support, a two-thirds vote is needed to sell more bonds. Republican support would be needed to do that, and Republicans seemed in no mood to cooperate.

“This gross receipts tax, the largest in the country, will drive up consumer costs for working families and will hurt the economic viability of small businesses,” state Rep. Michael Tryon (R-Crystal Lake) said.

Tryon continued, “The governor failed to provide critical details of the health care program, including what type of coverage will be offered and the cost incurred by our families. What we do know is that the new revenue will come out of the pockets of Illinois taxpayers. Expanding health care is a laudable goal—but not when it comes at the expense of driving up the price of goods and services our families need and eliminating jobs in Illinois.”

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

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Ct. Governor Seeks Tobacco Tax Hike, $3.4 Billion Income Tax Increase

By Steve Stanek

Less than three months after she was elected last November on promises to lower taxes, Connecticut Gov. M. Jodi Rell (R) proposed a $3.4 billion hike in the state's income tax and a hike in taxes on cigarettes.

Under the governor's plan, the maximum 5 percent income tax rate would climb 10 percent, to 5.5 percent. The increase would be smaller for people in lower tax brackets. Cigarette taxes would jump from $1.51 to $2 per pack.

Rell's budget, submitted in February, includes some tax cuts, as she proposes eliminating the local property tax on cars, pickup trucks, and motorcycles. The state currently pays up to 80 percent of the cost of school construction. The state school construction aid to range from $1.1 billion, but educators have concerns about making some changes, particularly some form of spending limitation for construction, McCarthy said. “If a school is about to undergo extensive construction or renovation, that would be seriously impacted by the proposal. It translates to difficulty getting the project approved at the local level” because local taxpayers would have to foot most of the construction bill.

Spending Limits Wanted

Joe Brennan, senior vice president of public policy for the Connecticut Business & Industry Association, said many of his organization's members “have concerns that more money to municipalities won’t guarantee improvement in education or reduction in property taxes. We are talking to Governor Rell about making some changes, particularly some form of spending limitation on local governments.

“We haven’t seen the language yet, but we’re confident she will put forth a spending limitation and get at the cost-drivers,” Brennan said. “There is a lot of criticism of our binding arbitration laws (for government employees). An arbitrator would see new money and use it to pay for higher salaries. It would not be used for property tax relief. We are working with the governor and think she is mindful of that.”

Accountability Sought

Brennan said the Connecticut Business & Industry Association values a good education but wonders about the costs and dismal results in some school districts.

“In Hartford the per-pupil cost is approaching $14,000 a year, which is a lot of money,” Brennan said. “We have a new superintendent in Hartford who has admitted the current high school graduation rate is 29 percent. When you’re spending $14,000 a person, and with the new money the governor is proposing it could be $20,000, people are saying why not just send them to private schools?

“We don’t mind spending on education, but we must have strict accountability measures to ensure property tax relief and improvement in education achievement levels,” Brennan said.

Money No Guarantee

Muska said businesses and citizens have good reason to worry about accountability.

“The governor claims her tax hike is necessary to improve education. But spending more on Connecticut’s inefficient public schools would be a mistake,” Muska said. “Education in Connecticut needs more accountability, transparency, and choice—not more tax revenue.

“For decades, research has overwhelmingly shown that throwing more money at schools does nothing to boost student performance,” Muska continued.

Muska said taxpayers should expect the promised property tax relief to be illusory.

“Runaway property taxes are not the result of insufficient revenue,” Muska said. “They are caused by state micro-management of municipal government, and local politicians who refuse to say no to public employee unions.”

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

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Governors Press Bush for More Children’s Health Money

By Dane G. Wendell

D emocrat and Republican governors alike want President George W. Bush to provide $745 million in additional funding for the State Children’s Health Insurance Program (SCHIP). SCHIP was created in 1997 to be a partnership between the federal government and state governments to provide health insurance to six million uninsured working families. The vast majority of recipients are children.

Programs Expanding

Several states have used the SCHIP funding to promote universal health coverage, voluntarily expanding the program to cover more children and more parents.

Bush met with governors February 25. In a February 26 Associated Press article, Health and Human Services Secretary Mike Leavitt said Bush wants SCHIP to remain focused on poor children instead of adults and all children.

“You end up paying for this in other ways—uncompensated care, emergency rooms,” New Jersey Gov. Jon Corzine (D) told the AP.

Georgia Gov. Sonny Perdue (R) agreed, adding: “It’s a matter of doing the right thing. It’s nonpartisan. It’s bipartisan.”

“Democrat and Republican governors alike want President George W. Bush to provide $745 million in additional funding for the State Children’s Health Insurance Program.”

Always Wanting More

Health policy expert Michael Cannon is not surprised by the request for additional tax dollars.

“When have the governors ever not asked for more money from Congress?” said Cannon, director of health policy studies at the Cato Institute.

“What governor wouldn’t want to say to his constituents, ‘I brought more money into the state without raising your taxes’? Of course, taxes will be higher. It’ll just be Congress that raises them, not the governors.”

Money Misdirected

Cannon believes SCHIP is a financially unsustainable program. SCHIP funding is often misdirected to families that are already privately insured, he noted.

“In a recent study, Jonathan Gruber of MIT confirmed that six out of every 10 people covered by SCHIP expansions already had private coverage,” Cannon noted. “In other words, SCHIP [insured] four children for the price of 10.”

Galen Institute President Grace-Marie Turner said it is little wonder why states like New Jersey are running out of money.

“New Jersey covers kids up to 350 percent of poverty, which means taxpayers are subsidizing health care for children whose parents make more than $72,000 a year,” Turner said.

Dane G. Wendell (dwendell@heartland.org) is a legislative specialist focusing on issues of children, welfare, and poverty at The Heartland Institute.

Utah

Continued from page 1

ing revenues, resulting in a $1.6 billion surplus in a $10 billion budget. Another factor was high volatility in tax receipts under the old multi-bracket income tax system. Utah implemented intermediate changes last year, including an optional flat-rate income tax, which will be replaced by this year’s changes.

Politically, we never could have gotten a pure flat tax,” Niederhauser said. The compromise was a 5 percent tax rate, with credits that phase out as adjusted gross income rises.

Niederhauser said a budget analysis conducted by the Utah Taxpayers Association shows the new system “will cut the volatility of the old system and our dual system (passed last year with the optional flat tax) in half.

“The Utah lawmakers have cut personal income taxes more than $100 million, including a drop in the top tax rate from 6.98 to 5 percent, the centerpiece of nearly $220 million in tax cuts to take effect in fiscal year 2009.”

“I think the vote was so overwhelming because both houses got what they wanted, and it was popular with the public,” Neiderhauser said. “A lot of people liked the cut in sales tax on food as well as the income tax reforms. That sales tax cut was something the House was dead set on. Once that was put in, nobody could vote against the package.”

In late 2003, then-governor Olene Walker convened a group of tax policy experts to propose changes to Utah’s tax system.

Rates Will Fall

The newest changes to Utah’s individual income tax include:

• Replacing the top marginal rate of 6.98 percent with a single rate of 5 percent. This will be the first time in recent memory, if ever, that Utah’s individual income tax rate has been lower than the national average (currently 5.3 percent).

• Offering nonrefundable credits that will be phased out as income increases, thus leaving some progressivity in the system. Because the credits would be completely phased out at high income levels, Utah’s new system will be a 5 percent flat tax for high-income households.

• Allowing taxpayers to choose a nonrefundable credit based on either 6 percent of the federal standard deduction or 6 percent of federal itemized deductions (excluding Utah income taxes paid).

• Allowing taxpayers to claim nonrefundable credits for each household member, equal to 4.5 percent of the federal personal exemption.

Process Began in 2003

Utah policymakers started discussing tax reform in late 2003, when then-governor Olene Walker (R) convened a group of tax policy experts to propose comprehensive changes to the state’s tax system.

Recently, Huntsman and legislators focused on reforms that would reduce revenue volatility, make Utah more competitive for investment, and simplify Utah’s tax system.

“This package meets all of those goals,” Senate Majority Leader Curt Bramble (R-Provo) told the Salt Lake Tribune.

The statewide general sales tax rate will be reduced from 4.75 percent to 4.65 percent, and the state sales tax rate on food will be reduced to 1.75 percent.

A tax credit for research and development, a sales tax exemption for mining equipment, and a tax credit for renewable energy investment and production will reduce the amount of corporate income tax companies will have to pay by another $22.5 million, according to budget estimates.

Government Still Grows

Despite the tax rate cuts, credits, and exemptions, Utah state spending continues to grow at a rapid rate as revenues keep increasing. State budget growth from general and education funds will be almost 40 percent over two years. Most of this growth is tied to K-12 education and transportation.

The state budget is expected to remain in balance because of the increasing tax revenues.

“Some policymakers downplay the magnitude of these spending increases because transportation expenditures are just ‘one-time’ expenditures,” said Rep. Greg Hughes (R-Draper), chairman of the House Conservative Caucus. “However, so-called one-time expenditures are still tax dollars, and transportation really cannot be considered a one-time expenditure because Utah anticipates spending hundreds of millions of dollars, eventually billions of dollars, every year for the next several decades in order to expand its transportation infrastructure to keep up with population growth.”

Mike Jerman (mike@utahtaxpayers.org) is vice president of the Utah Taxpayers Association.
Missouri
Continued from page 1
allowable tax rate in the Mehlville Fire Protection District by 45 cents for each $100 of assessed valuation, reducing the fire district’s allowable tax collections by about $9.75 million.

Unions Opposed Tax Cuts
On February 7, a resident, represented by an attorney for the local firefighters union sued to have the referendum removed from the ballot, and on February 8 Hartenbach sided with the union attorney.

“The public employee unions have utter contempt for you and me, a total entitlement mentality,” said Aaron Hilmer, chairman of the fire district board and the main force, with fellow board member Bonnie Stegman, in putting the tax cut referendum on the ballot.

“I’m not anti-union—my father and grandfather were union—but these public-sector unions have made an art of controlling this,” Hilmer said.

Since joining the three-member board in 2005, Hilmer and Stegman have slashed spending while improving services.

“A judge in St. Louis County, Missouri has ruled that trustees for a local fire protection district may ask voters to raise the district’s maximum tax rate, but not to lower it.”

Spending $7 Million Less
The budget for the fire district in 2005 was $25.5 million, Hilmer said. The 2007 budget is $18.4 million.

Because the fire district is functioning with so much less money, Hilmer said, he and Stegman decided to ask the district’s $1,000 registered voters if the district’s maximum allowable tax rate should be lowered.

“We’ve cut spending and improved services,” Hilmer said. “We have increased paramedic coverage by 200 percent. Before we were elected there were seven fire trucks, a heavy ambulance, and five [regular] ambulances. Paramedics were only on ambulances. We’ve hired people who are cross-trained [for firefighting and paramedic duties] and put medical equipment on everything.

“We’ve built a new firehouse, bought two new fire trucks and three new ambulances, and upgraded staff cars and medical equipment, all with less money than we were spending before,” Hilmer said.

Employee Benefits Were Lavish
Where was the money going? Hilmer checks off a partial list:

• Every office employee received a $950 clothing allowance paid at Christmas.
• Every office employee received a $950 clothing allowance paid at Christmas.
• Office staff received 30 paid sick days and could roll them over from year to year.
• People have left here with more than $55,000 in accrued sick days,” Hilmer said.
• The fire chief was paid more than the governor of Missouri, about $125,000, not including benefits. He also received 73 paid days off per year. Plus, “The chief quit at 55 with a $750,000 one-time pension check,” Hilmer said.
• Firefighters contributed nothing to their pensions.

Firefighters Sued Board
The new fire board has reined in all those benefits, including starting a defined contribution plan to replace the existing defined benefit plan for new hires and requiring firefighters to contribute to the pensions.

They also has rolled back disability benefits. Those moves have sparked lawsuits by the firefighters.

In February an appellate court affirmed a lower court ruling dismissing a lawsuit against the Mehlville Fire Protection District by Local 1889 of the International Association of Fire Fighters. That lawsuit challenged the district’s decision to eliminate current disability benefits from the pension plan and create a new plan. On March 12, Attorney John Goffstein, who represents Local 1889 of the “I’m not anti-union—my father and grandfather were union—but these public-sector unions have made an art of controlling this.”

AARON HILMER
CHAIRMAN
MEHLVILLE FIRE PROTECTION DISTRICT
International Association of Fire Fighters, told Call Newspapers he will ask the Missouri Supreme Court to review the lawsuit’s dismissal.

A second lawsuit, challenging the creation of the defined contribution plan, has not been decided.

Firefighters Well-Paid
One close observer of the Mehlville Fire Protection District has been Mike Anthony, executive editor of Call Newspapers, which covers Mehlville and other St. Louis suburbs.

In a March 7 story, Anthony reported the firefighters are very well paid, with 94 of 122 district employees who worked full-time during 2006 receiving salary and benefit packages of more than $100,000, according to information compiled by the district.

Anthony noted the decision to throw the tax cut referendum off the ballot “won’t enhance the reputation of the firefighters in the community. Their salaries in comparison to the average person’s are quite exorbitant.

“They’ve cut spending and improved services,” Anthony said of the fire district board. “I think it’s a great story. We didn’t receive any calls or letters saying, ‘No, I don’t want to reduce my taxes’. I’ve been in journalism 25 years, and I’ve never encountered something like this.”

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

Maine Tobacco Tax Hike Likely to Benefit New Hampshire

By Jason Fortin

Maine lawmakers are considering another round of tobacco tax hikes, a move that likely would increase business and tax revenue in neighboring New Hampshire, where taxes are lower, according to a report issued in March by The Maine Heritage Policy Center.

“Policymakers must recognize that there will be a market reaction to any new tobacco tax increase,” said J. Scott Moody, author of the report, titled “Smoke and Borders: How tobacco tax increases promote cross-border shopping,” released March 6.

“Cross-border shopping will result in less-than-projected tax revenues and lower sales for Maine retailers,” Moody said in an interview for this article.

Moody’s report analyzes the phenomenon of cross-border shopping for cigarettes, which occurs when an individual from one state travels to another to avoid paying a state tax on an item. With cigarettes, cross-border shopping happens nationally, as tobacco taxes vary widely from state to state.

New Hampshire’s Draw
In New England, according to Moody, New Hampshire benefits greatly from cross-border shopping for cigarettes. New Hampshire’s cigarette tax rate (80 cents per pack) is significantly lower than the rates in Maine ($2 per pack), Massachusetts ($1.51), and Vermont ($1.19).

Despite having a cigarette tax that is $1.20 per pack lower than in Maine, and nearly the same population and smoking rates as Maine, New Hampshire raised almost as much revenue as Maine did from cigarette taxes in FY 2006 ($138 million versus $153 million).

Border Counties Hit Hard
Moody analyzed proprietary data provided by Big Apple/CN Brown convenience stores in Oxford and York Counties, which border New Hampshire. Average cigarette sales fell by 9.9 percent in Oxford County and 7.1 percent in York County after Maine hiked cigarette taxes $1 a pack at the start of Fiscal Year 2006.

At the same time, sales rose in their New Hampshire stores by an average of 7.8 percent.

“The data clearly show that as tobacco taxes increase, so does the amount of cross-border shopping to avoid the tax increases,” said Moody.

Revenue Estimates Questionable
Maine Gov. John Baldacci (D) nevertheless is projecting $66 million in new revenue from dramatic hikes in tobacco taxes, including a 50 percent increase in the cigarette tax (to $3 per pack from $2 per pack) starting in state fiscal year 2008.

Baldacci also proposes raising the tax on “smokeless tobacco” 50 percent (to 117 percent of the wholesale price, up from 78 percent), Taxes on other tobacco products such as cigars and pipe tobacco would increase 50 percent (to 30 percent of the wholesale price, from 20 percent).

Jason Fortin (jfortin@mainepolicy.org) is director of communications/ projects manager at The Maine Heritage Policy Center.


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Georgia Speaker Is Considering State Tax Overhaul

By Kelly McCutchen and Benita M. Dodd

Georgia House Speaker Glenn Richardson (R-Hiram) has hired economist Arthur Laffer, known as the father of supply-side economics, to develop tax solutions for the state.

Laffer has proposed eliminating all taxes in Georgia except for “sin taxes,” a 5.75 percent flat income tax, and a 5.75 percent consumption tax on all goods and services.

‘Every Option’ Considered

Richardson describes Georgia’s tax system as “antiquated and burdensome.” He promised to “examine every option, every variable, and every proposal” to come up with sound tax reform legislation by early next year.

Richardson’s effort comes as the state legislature, inundated by tax reform proposals this year, tries to sift through the group after group come in with additional exemptions from the current taxes.”

Initial Reaction Looks Promising

Joe Fleming, senior vice president of government affairs at the Georgia Chamber of Commerce, said the chamber awaits more details but “appreciates the leadership interest in creating the fairest possible, pro-business tax climate in the country.”

Jerry Griffin, executive director of the Association County Commissioners of Georgia, said the organization “fully supports a review of Georgia’s entire tax structure.”

“…to shift the burden to those that don’t have an exemption, and that can create an imbalance that can impact the state’s economy.”

Dramatic change is sure to worry the state forward with comprehensive tax reform.

Some Taxes Already Targeted

Tax proposals currently under consideration in the Georgia Legislature include elimination of the income tax, the corporate income tax, the car tag tax, and taxes on seniors.

Affecting the move toward taxpayer protection, however, are proposed increases, including a one-cent transportation-related statewide sales tax and a regional special local option sales tax that would allow counties to join forces on regional transportation projects.

Some business groups and local government officials are reluctant to speak out but are watching closely as Richardson’s reform proposals take shape.

Fiercely protective of local control, Georgia communities may resist ceding revenue control to the state.

“If you neglect your tax system, [and] have a great education system, great roads, your well-educated kids are going to use your well-paved roads to look to other states for work,”

JONATHAN WILLIAMS
ECONOMIST
TAX FOUNDATION

“If you neglect your tax system, [and] have a great education system, great roads, your well-educated kids are going to use your well-paved roads to look to other states for work,”

INTERNET INFO


Georgia's Tax Burden Puts State at a Disadvantage

Georgia's tax burden was 10.4 percent of personal income in 2006, which ranked the state 25th nationally, according to a Tax Foundation study released January 30, 2007.

But that middle-of-the-nation ranking means little when taking into account that every neighboring state except North Carolina has a lower tax burden than Georgia.

Analysis shows sound tax policy is crucial if Georgia is to gain an economic edge in the competitive southeastern United States.

At a recent Georgia Public Policy Foundation policy briefing luncheon in Atlanta, Tax Foundation economist Jonathan Williams told a crowd of more than 100 that Georgia’s tax system, state and local tax burden—the percentage of personal income taken by the government in the form of taxes at all levels—has increased substantially since 1970. Over the past 36 years, the state’s tax burden has increased nearly 20 percent as a percentage of personal income.

“Taxes are the state of the goose that laid the golden egg,” Richardson said. “It’s a problem when a family has lived in the same home for years and years and suddenly they can’t afford it anymore because their property taxes have increased so much.”

— Kelly McCutchen and Benita M. Dodd

INTERNET INFO

‘Income Inequality’ Claims Ring Hollow When Correctly Examined

By Alan Reynolds

New York Times columnist David Brooks began a January 14, 2007 piece by saying, “Income inequality is on the rise.” No fact or explanation was offered because this is something “everyone knows.”

Whenever someone says inequality is rising, however, questions need to be asked about what and when.

Income can be defined narrowly (excluding government transfer payments and taxes) or broadly (including taxable capital gains and a share of corporate profits) at both ends of the scale, and it makes a big difference what definitions one chooses.

We are constantly confronted with dubious estimates of the share of income received by the top 1 percent, as though that could tell us anything about how the other 99 percent are doing.

“If the rich get more,” wrote Paul Krugman, “that leaves less for everyone else.”

Such zero-sum reasoning defies economists’ definition of efficiency (“Pareto optimality”), which occurs whenever someone becomes better off without anyone else becoming worse off. The young founders of Google became billionaires by creating something new and useful, not by “leaving less for everyone else.”

The second big question about inequality is about timing. When did the increase in inequality (of what?) supposedly occur? The answer is often given by comparing just two years, such as 1979 and 2004, and then pretending we can assume a continuous trend by drawing an imaginary line between those years.

Unjustified Conclusions

In a highly publicized speech in February, Federal Reserve Chairman Ben Bernanke said, “Rising inequality is not a recent development but has been evident for at least three decades, if not longer.”

It would have been more accurate if Bernanke had said rising inequality “is not a recent development,” but something that happened long ago. The only study he cited that dealt with income of the entire population claimed inequality increased between 1968 and the early 1990s, which is not exactly recent.

All the figures Bernanke presented started with 1979 and ended with 2004 or 2005, which tells us nothing about what happened in between. Citing the Congressional Budget Office (CBO), he said, “The share of after-tax income garnered by the households in the top 1 percent of the income distribution increased from 8 percent in 1979 to 14 percent in 2004.”

Yet the same data also show the top 1 percent’s share fell from 13.2 percent in 1986 to 12.2 percent in 2003. Such two-year comparisons, his or mine, are almost always misleading.

New Definitions

For one thing, the 1986 tax reform greatly increased the amount of high incomes reported on individual tax returns, notably by Subchapter S corporations. Much of that income had previously been reported on corporate tax returns.

For another, the CBO now adds 59 percent of all corporate profits to the “incomes” of the top 1 percent, a mis-estimation of the top 1 percent’s share of wealth. As Bernanke noted, the Fed estimates the top 1 percent owns “about 35 percent” of the nation’s aggregate household net worth—not 59 percent. Applying the Fed’s estimates to CBO data, I calculate the top 1 percent’s share of before-tax income as having fallen from 11.8 percent in 1989 to 11.3 percent in 2004.

“Whenever someone says inequality is rising … questions need to be asked about what and when.”

Getting back to our first question, we also have to ask what Bernanke was referring to when he spoke of “rising inequality” (from 1979 to 1986). His talk generally assumed that differences in income mainly reflect differences in hourly wages. He spoke of the fall in the real minimum wage, and about higher wages for college grads than for high school dropouts.

CONTINUED on right
CONTINUED from left

Additional Factors

Yet the gap between wages of college graduates and high school dropouts could properly be equated with “income inequality” only if work was the only source of income, everyone worked full-time, and the relative numbers of college grads and dropouts did not change. Wages are indeed a very important source of income among the top fifth, where two salaried persons are the norm, but transfer payments are most important among the bottom fifth. The number of people who worked full-time all year in 2005 was 16.7 million in the top fifth but only 3.2 million in the poorest fifth.

Bernanke claimed, “The share of income received by households in the top fifth of the income distribution, after taxes have been paid and government transfers have been received, rose from 42 percent in 1979 to 50 percent in 2004, while the share of income received by those in the bottom fifth of the distribution declined from 7 percent to 5 percent.”

Unfortunately, those were the wrong figures. They do not exclude taxes and do not include all transfer payments.

Negligible Changes

The top fifth’s share of disposable income, “after taxes have been paid and government transfers have been received,” rose slightly (from 41.1 percent in 1979 to 44.9 percent in 2004, not 50 percent), while the share received by those in the bottom fifth declined slightly (from 5.3 percent to 4.7 percent).

All of that apparent increase in inequality happened between 1980 and 1986, not recently.

Aside from a meaningless spike to 45.7 percent in 1986, related to that year’s tax reform, the income share of the top fifth remained at about 43.5 percent from 1985 to 1992. Then “a change in survey methodology in 1993 led to a sharp rise in measured inequality,” as the Economic Policy Institute has explained. Based on that statistical break in the data, the top fifth’s share has averaged about 45 percent since 1993.

Similarly, the Gini coefficient for disposable income and consumption numbers indicate greater inequality was close to .39 from 1985 to 1992. It went to .40 in 1993, because of the survey change, and remained at .40 in 2002-2004.

“Because income fluctuates and consumption can be financed from transfers, wealth, and credit, relative living standards are best measured by what consumers spend.”

Consumption Clues

Because income fluctuations and consumption can be financed from transfers, wealth, and credit, relative living standards are best measured by what consumers spend. A study in the April 2005 Monthly Labor Review estimated the Gini coefficient for consumption was 0.283 in 1986 and 0.280 in 2002.

In the 2005 Consumer Expenditure Survey, conducted by the U.S. Bureau of Labor Statistics, the bottom fifth accounted for 8.2 percent of total consumer spending, compared with 39 percent for the top fifth. But there were only 1.7 persons and 0.5 workers per “consumer unit” in the bottom fifth, compared with 3.2 persons and 2.1 workers in the top fifth.

Consumption per-capita or per-worker is much more equal than the consumption shares indicate, and consumption shares are much more equal than income shares (particularly if taxes and transfer payments are excluded).

The next time someone bemoans “rising inequality,” ask what they mean by inequality and whether they think that rise occurred. There is no evidence of rising inequality of consumption since 1986, nor of disposable income.

Alan Reynolds (areynolds@cato.org), a senior fellow with the Cato Institute and syndicated columnist, is the author of Income and Wealth (Greenwood Press 2006).

President Curbs Power of Agencies

to Issue Regulatory “Guidance”

By Steve Stanek

A n executive order by President George W. Bush, aimed at curbing the power of federal agencies to regulate businesses through “guidance,” will be watched closely by business and environmental groups in the coming months.

“Guidance” is the practice of agencies issuing guidelines businesses must follow, without going through formal rulemaking procedures.

On January 18 Bush issued an amendment to Executive Order 12866, first issued by President Bill Clinton in 1993. The Bush amendment requires federal agencies to identify the special market failure a proposed guidance is intended to address, and to obtain approval of the agency’s Regulatory Policy Office, before issuing a new guidance.

“An executive order by President George W. Bush ... will be watched closely by business and environmental groups in the coming months.”

Agencies also would have to project the costs and benefits of their proposed guidance.

From ‘Guidance’ to Requirement

Federal agencies issue guidance to interpret policy and technical questions. Though guidance documents are not official rules, they often have taken on the force of rules and have added billions of dollars to business compliance costs, according to critics.

“I think this [amended executive order] is a good thing,” said Angela Logomasini, director of risk and environmental policy at the Competitive Enterprise Institute. “The way it has been, agencies that can’t get things they want through the regulatory process offer guidance. They have no accountability.

“Environmentalists would rather have agencies regulate without limits, so I think this is a modest but important policy change,” Logomasini said. “It will encourage agencies to think a bit before pulling a fast one.”

Opposition to Change

David Willett, press secretary for the Sierra Club, a national environmental organization, said the organization has not issued a formal response to Bush’s move, but added, “We are generally concerned with steps that put political appointees in greater positions of power in federal agencies, because those people are likely to be under the sway of whoever is in the White House.

“That seems to be one of the tasks this White House is taking,” Willett said. “This executive order is a way to try to put decisions into the hands of political appointees rather than career people who look at the long-term more than politicians, who often are more interested in short-term advantage.”

Half-Million Guidance Documents

There are 192,000 federal regulations on the books, and more than 500,000 guidance documents, according to the U.S. Chamber of Commerce.

“President Bush’s amendment is a paragon of common sense and good governance,” said William Kovacs, the Chamber’s vice president of environment, energy, and regulatory affairs. “It’s the first truly significant attempt by an administration to hold federal bureaucrats to account and insist they act with discretion when imposing new and expensive burdens on businesses and consumers.”

“Abuse of Due Process”

Maureen Martin, senior fellow for legal affairs at The Heartland Institute, said she is pleased by Bush’s order.

“The problem with guidance is that agencies use it as a substitute for rulemaking, which is an abuse of due process,” Martin said. “In the 1980s—the early days of environmental law—agency guidance was helpful because it filled the gap between Congress’s enactment of a law and promulgation of rules adopted with formal notice and public comment.”

“I think this is a modest but important policy change. It will encourage agencies to think a bit before pulling a fast one.”

ANGELA LOGOMASINI
DIRECTOR OF RISK AND ENVIRONMENTAL POLICY
COMPETITIVE ENTERPRISE INSTITUTE

Martin added, “Often, however, years or even decades went by without formal rulemaking proceedings, and the informal guidance documents, sometimes pushing the boundaries of the law, took on full legal trappings, and companies targeted by guidance-driven agency enforcement actions often settled them because they lacked the resources to challenge the guidance in court.”

Steve Stanek (stanek@heartland.org) is managing editor of Budget & Tax News.
Kentucky Corporate Minimum Tax Comes Under Fire

By Jim Waters

Despite a top lawmaker’s claim that Kentucky’s alternative minimum calculation (AMC) tax, also known as a gross receipts tax, is “un-American,” it appears the business levy will remain in place at least until the state’s next budget is considered in 2008.

Few of the state’s leading political figures have made the issue a high priority during the current political campaign, which has nearly as many gubernatorial candidates as American Idol has competitors. One of those candidates—incumbent Republican Gov. Ernie Fletcher—promoted adoption of the AMC in 2005 and continues to defend the levy.

Pressure applied by the state’s small business lobby resulted in lawmakers adjusting the policy last June. The revised plan immediately exempted businesses with gross receipts of less than $3 million. It also phases out the tax on companies with between $3 million and $6 million in revenue.

But lawmakers left in place a portion of Fletcher’s tax policy requiring all companies doing business in Kentucky to pay a minimum “fee” of $175. While the adjustments made last year were touted by political leaders as offering tax relief for about 70,000 businesses in the state, all of those companies—regardless of whether they are profitable—will pay the minimum fee, providing a $12.3 million annual windfall for the state government.

Candidate Calls for Repeal

One gubernatorial candidate is making AMC repeal an important part of his campaign.

Western Kentucky businessman Billy Harper, seeking the Republican nomination for governor, says there’s plenty of evidence supporting a need for immediate repeal of the tax. Harper owns and operates a manufacturing firm that does business in Kentucky and other states. He says he has seen the effects of taxes like the AMC up close.

“Despite a top lawmaker’s claim that Kentucky’s alternative minimum calculation tax ... is ‘un-American,’ it appears the business levy will remain in place at least until ... 2008.”

“Taxing unprofitable businesses, whether they’re based in Kentucky or have headquarters elsewhere, is not the way to improve this state’s business climate,” Harper said in a statement in response to Fletcher, who claimed before the Kentucky Association of Manufacturers on February 12 that the tax would capture revenue from out-of-state firms operating in Kentucky.

“Further, we shouldn’t discourage out-of-state businesses from operating here, hiring Kentucky workers, and contributing to the state’s economic development,” Harper said.

Democrat Calls Tax Un-American

Democratic Party gubernatorial contender Jody Richards, who currently serves as House Speaker, told reporters the tax is “un-American” because it punishes initiative and taxes businesses on gross receipts, not profits—meaning even companies that lose money must pay the tax.

Despite his belief the tax is un-American, Richards did not commit to push for repealing it this year. Instead, he would say only that he and fellow House leaders would consider the issue.

Economic data provided by state budget officials show that since the alternative minimum calculation was signed into law in 2005, revenue from corporate taxes has increased dramatically. According to State Budget Director Brad Cowgill’s office, corporate income tax revenues increased 109 percent during the first year following passage of the AMC.

Budget officials say it’s impossible to determine how much of that revenue was specifically generated by the AMC. But as proof the tax is gouging the state’s economy, critics point to other indicators—such as the paltry 6 percent growth in sales and use tax revenues during the AMC’s first year—which many consider to offer genuine clues about a state’s economy.

Employment Dropped

Another clue may lie in Kentucky’s employment climate. The state’s Department of Labor reports that in 2005, Kentucky firms laid off 55,000 workers, an increase of 46 percent compared to the previous year.

“If they don’t act to repeal the AMC now, they will simply collect millions of dollars of scarce resources that entrepreneurs would normally use to build their businesses,” said Chris Derry, president of the Bluegrass Institute, a public policy organization.

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N.M. Gross Receipts Tax Offers a Cautionary Tale

By Paul J. Gessing

Gross receipts taxes are beginning to spread nationwide, to the dismay of economists, businesspeople, and consumers, a new report observes.

While these taxes are new to most states that have them, New Mexico has extensive experience with this form of taxation, having adopted a gross receipts tax more than 40 years ago. The experience has not been good, according to Henry Messenheimer, co-author of “New Mexico’s Gross Receipts Tax: A Warning to Other States,” written by Henry Messenheimer and published by the Rio Grande Foundation in February by the Rio Grande Foundation in Albuquerque, New Mexico.

“The gross receipts tax is the defining feature of New Mexico tax policy. Other states should take a close look at our tax system and the political and economic problems associated with gross receipts taxes before adopting them,” said Messenheimer in an interview for this article.

“Gross receipts taxes are beginning to spread nationwide, to the dismay of economists, businesspeople, and consumers...”

Recent Adoptions
Kentucky, Ohio, and Texas have adopted gross receipts taxes recently (Kentucky and Ohio in 2005 and Texas in 2006); some cities levy their own versions; and a February 11 editorial in the Chicago Tribune called for Illinois to adopt “a 1 percent tax on all business receipts, coupled with repeal of the state corporate income tax and the state portion of the sales tax.”

Illinois Gov. Rod Blagojevich (D) in March proposed a gross receipts tax that would raise an estimated $6 billion, and governors and lawmakers in several other states are also considering adopting them.

Unlike other states, New Mexico applies its gross receipts tax at rates similar to those of sales taxes elsewhere (nearly 8 percent in some areas of the state). States that have recently adopted gross receipts taxes have rates of 1 percent or less.

Creeping Tax Rates
Messenheimer points out that New Mexico started out with far lower tax rates on gross receipts than it has today.

“If states enact gross receipts taxes without placing strict limits on future rate hikes, they will wind up with a loophole-ridden, business-killing tax like New Mexico’s,” Messenheimer warned.

The high tax rates in New Mexico “make for something of a controlled experiment in taxation and the economic effects of ‘tax pyramiding,’” Messenheimer said.

Tax Pyramiding
According to Messenheimer, the primary differences between a gross receipts tax and a sales tax are the taxation of services and the “pyramiding effect.”

For many businesses, especially those with high overhead costs and that are involved in the service industry—doctors are a good example—tax pyramiding can be especially problematic, Messenheimer said.

Many businesses, especially those with high overhead costs and that are involved in the service industry—doctors are a good example—tax pyramiding can be especially problematic, Messenheimer said.

The fiscal impact of tax pyramiding is difficult to quantify, but economists estimate excess revenue thus collected by New Mexico—the taxing of taxes—is in the $400 million to $500 million range.

Tax Shifting
Rather than maintaining the tax at relatively low rates across the board (the tax in New Mexico originated in the Great Depression and was first levied in its current form in 1966 at a rate of 3 percent), the tendency has been for politically influential industries to carve out specific exemptions for themselves in order to reduce their tax burden.

Managed care firms, for example, persuaded the state to exempt their industry from the gross receipts tax in 2004. Simultaneously, the gross receipts tax for fee-for-service firms increased.

As Kay Monaco, executive director of the left-of-center New Mexico Voices for Children pointed out, “Since (the exemption) only applied to health care providers who are paid by managed care organizations, the uninsured who see private providers on a ‘fee-for-service basis’ actually saw their costs go up. Worse, they now pay higher taxes on aspirin, cough medicine, and all other over-the-counter drugs than they did before the tax shift.”

Similar exemptions have been carved out for groceries, the film industry, aviation, and space travel, to name just a few well-connected or sympathetic interests. Since 2005, gross receipts tax rates have risen statewide by nearly a full point in many places, as localities have some discretion in raising the rate.

When businesses consider locating in New Mexico, some sort of gross receipts tax exemption is nearly always negotiated. This behavior skewes the market and gives politicians undue influence over business activity, drives tax rates up, and ultimately makes New Mexico’s economy less efficient.

“The gross receipts tax is the defining feature of New Mexico tax policy. Other states should take a close look at our tax system and the political and economic problems associated with gross receipts taxes before adopting them.”

HARRY MESSENHEIMER
RIO GRANDE FOUNDATION

Border Losses
The high tax makes it difficult for New Mexico businesses—especially those in border areas—to compete with businesses that are not taxed at similar rates. For example, the Pan American Center at New Mexico State University, located in the Texas-New Mexico border town of Las Cruces, has difficulty attracting headline acts because it competes with the Don Haskins Center at the University of Texas-Pan Am, where there is no tax on concert tickets.

To keep concerts and non-athletic entertainment in New Mexico, state Sen. Lee Rawson (R-Las Cruces) has been pushing legislation to exempt these shows from the gross receipts tax.

“In order for the Pan American Center in Las Cruces to have any significant impact in the non-sporting events venue, the tickets need to be exempt from the state’s gross receipts tax,” Rawson said in a press statement.

Economically Damaging
Usually the point of broadening a tax base is to keep tax rates low, thus remaining competitive with other states. But with Las Cruces levying its gross receipts tax at 7.125 percent, New Mexico’s potential tax rate advantage over sales taxes in nearby cities in Texas is eliminated.

And as the gross receipts tax base is narrowed on certain goods—New Mexico recently exempted groceries, and concert tickets probably will be exempted, as Rawson’s bill passed the Senate unanimously on February 19—the pressure builds for rates to rise even further.

“Even if states could avoid granting special-interest carve-outs and imposing higher tax rates over time, ‘tax pyramiding’ is nearly unavoidable in a gross receipts tax system,” Messenheimer said. “It’s an economically damaging outgrowth of such broad-based taxation regimes.”

What Is a Gross Receipts Tax?

What exactly is a gross receipts tax? Here is the New Mexico Taxation and Revenue Department’s definition:

“The gross receipts tax is a tax on the privilege of doing business in the state. It applies to the total amount of money or other considerations (barter, for instance) that a business receives for its transactions here in New Mexico. The taxable amount is the gross amount—not net after business expenses—and the tax liability belongs to the business instead of the customer. The gross taxable amount includes all reimbursed expenses billed to the customer: meals, travel, hotels, shipping, handling, postage, etc.”

According to Henry Messenheimer, a senior fellow with the New Mexico-based Rio Grande Foundation, this definition is similar to the definition of gross receipts taxes levied in other states.

— Paul J. Gessing
New Mexico Lawmakers Push for Spending Limits

By Paul J. Gessing

Tax and spending limits lost at the ballot box last November in several states, but a new effort to limit spending has popped up in New Mexico.

State Sen. Kent Cravens (R-Albuquerque) and state Rep. Tom Taylor (R-Farmington), minority leader in the House, are the lead sponsors of New Mexico’s “Taxpayer Protection Act,” a bill that would add a spending limit to the New Mexico Constitution.

“Tax and spending limits lost at the ballot box last November in several states, but a new effort to limit spending has popped up in New Mexico.”

Cravens announced the bill at a February 5 news conference in Santa Fe, saying, “It’s unacceptable to spend money just because it’s there. ... We need to start exercising some fiscal restraint.”

In “Stop State’s Spending Insanity,” published in the Albuquerque Journal, Taylor wrote, “If we fail to enact a tax and expenditure limitation, we will continue to see massive spending increases. With our current oil and gas windfalls, we are not getting hurt as badly. But when this windfall is over, we will pay a grave price.”

Limit Allows Growth

As it is currently formulated, the Taxpayer Protection Act would limit annual spending growth to 3.6 percent plus the rate of population growth. Sixty percent of any excess revenue would be deposited in the state’s “permanent fund” to be invested and spent in the future, and 40 percent of the excess would be refunded in the form of rebate checks to New Mexicans who filed tax returns during the previous year.

Since 2000, the annual inflation rate in the United States has never exceeded 3.4 percent, with the average rate at approximately 2.8 percent.

Opposition Lines Up

Proponents of taxpayer protections in New Mexico face an uphill battle. Rep. Luciano “Lucky” Varela (D-Santa Fe), deputy chairman of the state House Appropriations and Finance Committee, told the Albuquerque Journal, “For Republicans to say we should never make expenditures on better schools or needed roads does not help move New Mexico forward; it keeps us down.”

Gerry Bradley, research director at the left-of-center New Mexico Voices for Children, said, “While the Taxpayer Protection Act attempts to account for population growth, it fails to do so because populations of various populations like K-12 students and recipients of government services may rise faster. Inflation in the broader economy also rises and falls at rates different from specific government programs.”

Bradley also said, “New Mexico’s General Fund relative to overall personal income levels has been quite stable in recent years, obviating the need for artificial limits.”

Revenues, Spending Soar

Oil and gas revenues have played a big role in New Mexico’s revenue growth. In fiscal year 2000, the oil and gas industry paid $2.83 billion to the state, up from $1.13 billion in 2004. Oil and gas by themselves earned the state more than 55 percent of the $5.1 billion that was spent on all General Fund obligations last year.

State spending under Gov. Bill Richardson (D) has grown quickly with the influx of oil and gas money. This year, with $720 million in “new money” expected, Richardson proposed a one-year budget increase of 11 percent. Richardson’s predecessor, Gary Johnson (R), held down spending during his eight years as governor, which ended in 2002.

‘Every Dime Spent’

“Gary Johnson, by threatening to veto any effort to grow government too fast, kept a lid on government spending, but oil and gas revenue was not a factor then,” said Harry Messenheimer of the Rio Grande Foundation, an expert on New Mexico budget issues. “Unfortunately we now have consensus among the political leadership of the state that every dime collected should be spent.”

Messenheimer noted per-capita spending, adjusted for inflation, has grown 24 percent during Richardson’s four years in office.

“The big spenders refuse to acknowledge that their profligacy has produced nothing,” Messenheimer said. “The kids still don’t learn, the poor remain in poverty, and the health care situation remains unchanged.”

Paul Gessing (pgessing@riogrande foundation.org) is president of the Rio Grande Foundation in Albuquerque, New Mexico.

Illinois Transportation Authority Wants $10 Billion Subsidy Raise

Auditor General’s report slams waste, poor leadership

By John W. Skorburg

The Regional Transportation Authority (RTA), which oversees public transportation in Chicago and its metropolitan region, wants the state of Illinois to cough up another $10 billion over the next five years to further subsidize commuter rail, suburban bus lines, and the Chicago Transportation Authority’s public transit system.

On February 9 the RTA board passed an unbalanced budget that asks the state legislature for an additional $2 billion a year for the next five years.

Waste, Mismanagement

Two weeks later, Illinois Auditor General William Holland issued a report citing wasteful management, turf wars among agency leaders, sky-high salaries and benefits for transit workers, and rampant absenteeism as problems the RTA must address. He said money alone would not improve the RTA’s many problems and recommended a complete overhaul of the RTA system.

“The Regional Transportation Authority, which oversees public transportation in Chicago and its metropolitan region, wants the state of Illinois to cough up another $10 billion over the next five years ...”

The RTA’s request for $10 billion comes on top of billions of dollars of new spending also being considered for other projects in Illinois, including a universal health care plan backed by Gov. Rod Blagojevich (D), who in March proposed a $6 billion tax hike on businesses.

According to Steve Brown, spokesman for House Majority Leader Michael Madigan (D-Chicago), “transportation funding is only one of at least five mega-fiscal problems that are being brought to Springfield in 2007.”

Cautionary Response

The RTA budget plan, called “Moving Beyond Congestion,” would use multiple state and federal financial sources to fund expanded transit service.

“If you don’t have good roads, if you don’t have good rail, you don’t have good business. [But] I think it would be very difficult to pass [the RTA’s request],” said state Sen. Larry Bomke (R-Springfield), minority spokesman for the state Transportation Committee. “The state is in a devastating situation as far as funding is concerned.”

A spokesman for state Sen. Michael Bond (D-Grayslake) said the Senate has been working on a bill that would pull together more funding for the RTA to maintain services, but he added, “We want to see how that lines up before considering covering any additional RTA needs.

“The problem in transit is that the answer to every question seems to be more money. What is not on the table is the solution: the use of competitive contracting to reduce costs and make tax money stretch further,” said Wen-
Seattle’s ‘Sound Transit’
to Cost Nearly Double Original Estimate

By Michael Ennis

In 1996, Seattle-area voters approved the first phase of construction for a new transit system serving Central Puget Sound, dubbed Sound Transit.

Today, Sound Transit estimates phase 1 will be completed more than a decade late and $11 billion over budget. In November, Seattle-area voters will be asked to approve or reject the plan’s second phase.

Sound Transit phase 2 (ST2) would spend about $20 billion for extensions to light rail, bus, and commuter rail service. That would put the total cost at $35 billion, according to Sound Transit estimates ... assuming the second phase does not experience the same cost overruns as the first.

Commuter Demand

The November ballot proposal comes in response to growing demand on Puget Sound’s transportation system. Population estimates show the region will gain 1.2 million people in the next 20 years.

The Washington Department of Transportation’s November 2006 Congestion Report concluded travel times have increased on nearly every major route monitored in the region. Nonetheless, elected officials plan to build very little new road capacity. They say the solution is mass transit.

Cost Overruns

In 1996, area voters agreed to a 10-year temporary 0.4 percent sales and use tax increase and a 0.3 percent Motor Vehicle Excise Tax (MVET). The money was to pay for a commuter rail service, a regional bus system connecting Pierce, Snohomish, and King Counties, and Washington’s first light rail segment.

Sound Transit officials said the plan would cost $3.9 billion and take 10 years to complete.

Sound Transit officials now say the cost of the first phase is approaching $15 billion and it will not be completed until 2020. In addition, Sound Transit CEO Joni Earl says she intends to collect the 0.4 percent sales tax in perpetuity, even after the first phase is completed.

To fund the second phase of light rail, commuter rail, and bus system extensions, Sound Transit is asking voters to raise the sales tax by another 0.5 percent.

A One-in-Four Solution

If ST2 is approved, Sound Transit predicts the overall system would carry 351,000 riders per day by 2030, about one in four of the predicted 1.2 million people who are expected to move into the region over the next 20 years. The remaining 850,000 people would spill onto the system’s already-congested roadways.

Based on the agency’s own projections, 93 percent of the region would not use the Sound Transit system and congestion would only grow worse.

“Sound Transit’s plan to spend $35.2 billion to move less than a quarter of the region’s projected population growth by 2030 is not only expensive, it is not even enough to reduce today’s congestion at today’s current population,” said Paul Guppy, vice president for research with Washington Policy Center. “If Sound Transit’s second phase is implemented, we will do nothing more than spend $35.2 billion for 50 more years of congestion.”

Wendell Cox, senior fellow for urban growth and transit policy at The Heartland Institute, said he doubts the accuracy of the ridership projections.

“Approximately 98 percent of motorized travel in the Seattle area is by car now, so to get transit to reduce that to 93 percent is about as likely as pigs flying,” Cox said.

Also, Cox said, soaring housing costs in the area have slowed population growth, and he expects this to continue.

“The growth rates [estimates] are highly inflated by the failure of local officials to take into consideration the slower rates likely to occur because housing has become so unaffordable,” Cox said.

Potential Savings Ignored

King County, Washington’s largest county and home to Seattle, recently passed Transit Now, a voter-approved bus initiative. King County optimistically estimates it will remove 50,000 passenger vehicles from the roadways by adding 175 new buses.

The expansion will cost about $50 million—a cost of $1,000 to move one traveler to the public transportation system, compared to the $100,000 per person projected cost of Sound Transit.

“Spending should be prioritized based on a return of investment and measured through reductions in delay and travel times,” said Dick Paylor, chair-elect of the Eastside Transportation Association, a private-sector group drawing its membership mostly from the east side of Lake Washington in King County.

Paylor continued, “Transit has a small market share in most major corridors, and our investment policy should reflect the fact that the vast majority of demand requires road capacity for the mobility of goods and people.”

“Given the dire financial situation facing the RTA and the service boards, the current planning process and structure is flawed,” Holland’s report found.

State Rep. Julie Hamos (D-Evanston) said she planned to introduce legislation addressing issues raised by the audit.

“I myself have been critical for eight years of the role and authority of the RTA and have always believed we need to provide some new responsibility and authority with respect to regional planning and coordination,” Hamos said.

By Michael Ennis (mennis@washingtonpolicy.org) is director of the Center for Transportation Policy at the Washington Policy Center, http://www.washingtonpolicy.org/Transportation/PN-0617CostofSoundTransit.html


State Rep. Jack Franks opposes the RTA’s $10 billion subsidy request. State Rep. Julie Hamos has been critical of the RTA and will introduce legislation to fix it.

John W. Skorburg (jskorburg@heartland.org) is a visiting lecturer in economics and finance at the University of Illinois at Chicago and associate editor of Budget & Tax News.
Battle Brews in Washington Over NASCAR, NBA Sonics Requests for $500 Million

By Amber Gunn

Washington State officials are sharply divided over two proposals that would use tax dollars to subsidize a NASCAR race track and a basketball arena for the Seattle Supersonics of the National Basketball Association. The bills combined would dole out more than $500 million in taxpayer subsidies for the private sports facilities.

Florida-based International Speedway Corp. (ISC) and Sonics owner Clay Bennett are pushing hard to secure funding for their respective projects.

ISC officials are promoting an 83,500-seat race track as a revenue-generating economic development project. They say the track would attract crowds of out-of-state race fans and generate enough additional sales tax revenue to fund the state’s share of the project.

The Sonics are basing their case for taxpayer funding on the multi-use nature of the proposed facility.

Treasurer Slams Subsidies

Washington State Treasurer Mike Murphy (D) is railing against both proposals, calling them terrible deals for taxpayers. He says lawmakers need only look at Qwest Field, Washington’s most recent subsidized sports endeavor, to see what a poor return taxpayers received.

The state will pay about $800 million over 25 years to pay off $300 million it borrowed in 1997 to build the stadium for the National Football League’s Seattle Seahawks, Murphy said. In the same period, the Seahawks will just spend $25 million in rent while collecting virtually all of the parking, ticket, and concessions revenue.

“We might as well dispense with calling these things public-private partnerships, because they really aren’t,” Murphy told the state’s House Finance Committee on February 20. One day later, in an interview with Jim Brunner of the Seattle Times, Murphy said, “The private side gets rich. The public side gets screwed.”

Local’s Oppose Track

In Kitsap County, where the NASCAR track would be built, support is weak. None of the state legislators representing the Kitsap Peninsula supports using state dollars to finance the track. Most, including Rep. Sherry Appleton (D-Poulsbo), are actively opposed to the plan.

“I have always believed that public money should be for a public purpose. The track ultimately offers my county nothing,” Appleton said. “ISC has been offered 1,000 acres free in Lewis County with access to I-5. If ISC wants a track in Washington State, they should go there and pay their own way.”

Citizens Deny Say

Other legislators are troubled by the addition of an emergency clause in both the NASCAR and Sonics bills, which would deny citizens the right to a referendum. State Sen. Mark Schoesler (R-Spokane Valley), one of the project’s most enthusiastic supporters, has pointed to Denver’s Pepsi Center as a model for what a multi-use facility could bring to Washington State. The Pepsi Center was recently chosen as the site for the 2008 Democratic National Convention.

Private Money Works

But critics point out the Pepsi Center was developed entirely by private funds, and that multi-use facilities do not need government support.

Others point out that ISC, which operates a dozen speedways nationwide, could easily fund the project without tax dollars. Support for the project dwindled further, according to a February 18 article in the Kitsap Sun, after legislators learned the ISC was willing to privately fund the entire construction bill for a track on Staten Island in New York City, but not in Washington.

“The state is not denying NASCAR or the Sonics access to permits to build their facilities. The only thing keeping these structures from being built is the misplaced demand that taxpayers foot the bill,” said Jason Mercier, director of the Evergreen Freedom Foundation’s Economic Policy Center.

INTERNET INFO


National Expert Doubts Claimed Benefits of Subsidies

Prof. Allen Sanderson of the University of Chicago, who has extensively studied sports facility subsidies, says sports arenas do not stimulate economic growth or generate new public revenues.

Sanderson says entertainment dollars are fungible for individuals, meaning money spent on ballgames is money not spent at theaters, department stores, or other places.

“There is simply a substitution of spending on one alternative for another, with little in the way of new dollars added,” Sanderson said.

International Speedway Corp. (ISC) officials, who have joined the Seattle Supersonics professional basketball team in asking Washington state lawmakers for taxpayer subsidies for new facilities, claim this argument does not hold for a NASCAR track, because the majority of fans come from out of state. The company has agreed to put up $180 million of its own money in addition to paying for any cost overruns on the $368 million facility.

ISC officials point out their offer is a great deal more than what Sonics owners are willing to pay for their proposed new arena—only $100 million of a $500 million project.

Can’t Spend Everywhere

But Sanderson says sports subsidies represent an inefficient use of public dollars.

“The monies allocated to these sports facilities by and large come from public coffers that would otherwise have been used for ... other competing uses. Thus, revenues designated for construction and operations invariably come at the expense of other public projects.”

PROF. ALLEN SANDERSON
UNIVERSITY OF CHICAGO

“The monies allocated to these sports facilities by and large come from public coffers that would otherwise have been used for ... other competing uses. Thus, revenues designated for construction and operations invariably come at the expense of other public projects.”

— Amber Gunn
on how to address certain aspects of the AMT that are particularly urgent and compelling.

**Intended for Super-Wealthy**

Congress enacted the AMT nearly 40 years ago to ensure a handful of super-wealthy Americans could not completely avoid paying taxes. It worked, but subsequent inflation and other economic factors have gradually extended the AMT’s reach to millions of middle-class households. This year the tax will affect 23.4 million Americans and could affect as many as 53 million by 2017, according to IRS estimates.

The growing level of awareness and discontent is turning to anger among taxpayers, and as a result many members of Congress want to reform or eliminate the AMT. However, Congress’s challenge is daunting. If left alone, the AMT will bring in more than $1 trillion over the next 10 years.

Congress instead has been focusing on adjusting the AMT for inflation each year, thereby protecting many American families from its grasp. Meanwhile, the potential harm to taxpayers and the country’s future is increasing.

For many families, their taxes on ISOs have greatly exceeded actual income. As a result, the IRS has seized assets, including children’s college savings, retirement accounts, insurance policies, and homes.

Taxpayers have sought administrative and judicial relief, occasionally finding sympathy but never a solution.

**Targeted Tax Relief Granted**

The 109th Congress acted in a strong, bipartisan effort to provide targeted relief to these stricken taxpayers. Congress also passed a related amendment that would increase taxpayers’ compliance with the AMT’s ISO provision, virtually offsetting the revenue impact of the relief.

This AMT legislation likely is the first of many “bites” at realigning the AMT with its original intent. Rep. Sam Johnson (R-TX), sponsor of the bill upon which the legislation was based, noted, “Democrats and Republicans both recognize this problem as an unintended consequence of the AMT, and worked over the last three Congresses to address the problem in a manner that would synchronize final tax owed with actual gain received. The 109th Congress achieved this goal in significant part, while recognizing more work remains to be done to fairly rectify the situation.”

Johnson added, “This AMT-ISO situation demonstrates once again why we should repeal the AMT altogether, but this particular problem deserves attention now. I’m glad that we took the first bite of the apple and got to help the rank-and-file employees hurt by the AMT-ISO inequity. I hope that we can build on that success and [in 2007] end this problem for everyone.”

Democrat Chairman on Board

Sen. Max Baucus (D-MT), incoming Senate Finance Committee chairman, shares Johnson’s desire to repeal the tax, but doubts that’s politically realistic in the near future.

“If I had my choice, I’d repeal the individual AMT entirely and stop this stealth tax on American families once and for all,” Baucus said. “I think what’s realistic in the immediate future is a provision to prevent AMT from snagging more taxpayers in 2007 while we mount a strong effort to deal with the AMT longer-term.”

Sen. Charles Grassley (R-IA), ranking member of the Senate Finance Committee, agrees the AMT needs to be repealed, and he cautioned Democrats to recognize Congress should not “rely on revenue that was never supposed to be collected in the first place.”

Congress will likely embark on a deliberate and extended process of reversing the AMT’s effects, in part through continuing the inflation-adjustment approach. Targeted reforms are expected where taxpayers are most unfairly affected, including extending AMT-ISO relief to families left out due to income phase-outs.

Tim Carlson (tcarlson@ti.com) is president of the Coalition for Tax Fairness. Brian Trauman (bptrauaman@mayerbrownrowe.com) is an attorney specializing in tax issues at Mayer, Brown, Rowe & Maw LLP in New York City.
Court to Decide Whether Union Rights Trump Personal Rights

By Michael Reitz

The U.S. Supreme Court is considering oral arguments in the consolidated cases of Washington v. Washington Education Association and Davenport v. WEA, which could have major implications for organized labor and the rights of workers nationwide.

If the questions Justices asked during the January presentation of oral arguments are any indication, the Court may be poised to issue a ruling that reshapes national labor policy by further protecting individuals’ free speech rights.

Union Lawyers Scolded

Justice Anthony Kennedy repeatedly scolded the union lawyer for ignoring the rights of teachers.

“You begin by talking about the First Amendment, but you proceed as if there are no First Amendment rights of workers involved at all,” Kennedy said.

At least four Justices asked how the Washington law at issue in the case could be unconstitutional when past Court decisions have allowed even broader regulation of unions. When the WEA lawyer replied that non-union-member rights are “fully protected” under current case law, Justice David Souter asked, “Why can’t the State protect [them] more?”

Permission Required

In Washington, workers can be required to pay union dues as a condition of employment, even if they do not join the union. In 1992 the state passed a law requiring unions to get permission from non-members before using their mandatory dues for political activity.

The Washington Education Association (WEA) ran afoul of the law in 2001, pointed out by the Evergreen Freedom Foundation in a complaint filed with the state attorney general. A trial court fined the WEA $590,375 for intentional violations. The state supreme court later threw out the law as an “undue administrative burden” on the union’s free speech rights.

Washington Attorney General Rob McKenna (R) and a group of concerned teachers appealed the cases to the U.S. Supreme Court. In several landmark cases, including Abood v. Board of Education and Communications Workers v. Beck, the Court has held workers cannot be forced to pay for a union’s ideological activities.

Typically workers have an opportunity to object to the union’s spending and can get an after-the-fact refund of dues. The unique question in the Washington cases is whether states can require unions to get permission before spending dues on politics.

The WEA claims the requirement to get permission imposes an “irremovable hurdle” that “cuts deeply” into the First Amendment rights of the union.

Arguments Attacked

The WEA lawyer argued the law is flawed because it regulates only unions, while leaving corporations and trade associations untouched. The Justices seemed to reject that argument. The union doesn’t own the funds, pointed out Justice Ruth Bader Ginsburg.

“If the non-member wants it back, the non-member would be entitled,” Ginsburg said.

Justice Antonin Scalia was even more forceful. Unions are given “extraordinary power to exact funds from people,” he said, “but only for certain purposes. ... [The State] says, however, you will not use this money for this purpose without their consent.”

Chief Justice John Roberts appeared to agree teachers should have final say.

“Well surely, they get to make that decision, don’t they? Under the statute, it’s their decision,” Roberts said.

Michael Reitz (mreitz@effwa.org) is legal counsel of the Evergreen Freedom Foundation, a free-market think tank in Olympia, Washington.

INTERNET INFO


Teachers Are Highly Paid, Survey Shows

By Ryan Bedford

A study released in January 2007 by the Manhattan Institute found the average public school teacher is paid 36 percent more than the average white-collar worker in the same metro area and works an average of three hours less a week, at 36.5 hours. How Much Are Public School Teachers Paid? uses the Bureau of Labor Statistics’ annual National Compensation Survey to compare teacher salaries with the salaries of other white-collar workers in 66 metropolitan areas.

The Allegheny Institute reviewed the study and noted, “The average public school teacher pay is $34,06 per hour in 2005 as compared to $25.08 per hour for white-collar workers—a 36 percent pay advantage for teachers. Detroit had the highest average hourly pay for public school teachers at $47.28 followed by San Francisco at $46.70.”

Pittsburgh salaries were middle of the road at $37.10. Charlotte reported $25.18; Atlanta reported $32.90; Dallas reported $29.62; and Phoenix reported $26.26.

Union Membership Continues Slide

The labor movement’s freefall has not stopped. Union density (membership as a percentage of the workforce) continued to decline nationwide, dropping from 12.5 percent in 2005 to 12.0 percent in 2006, according to the Bureau of Labor Statistics’ annual report on union density, released in January.

Private-sector union density dropped from 7.8 percent in 2005 to 7.4 percent in 2006, according to the report. Despite significant organization efforts and victories, even public-sector union density fell, from 36.5 percent in 2005 to 36.2 percent in 2006.

Overall, there were 326,000 fewer union members in 2006 than in 2005.

Support for Secret Ballots

Does anybody outside the Beltway support H.B. 800 (known as the “Employee Free Choice Act”), proposed congressional legislation that would kill workers’ secret ballot rights and require employers to recognize unions if a majority of workers mark a check on a card?

The Wall Street Journal reported on March 2, “polls [show] 90% of the public thinks card check is a racket.”

The U.S. House Education and Labor Committee Republicans’ March 1, 2007 issue of “Left Turn” cited a poll conducted in January 2007 that asked whether “every worker should continue to have the right to a federally supervised secret ballot election when deciding whether to organize a union.” Eighty-seven percent of respondents agreed. Seventy-nine percent opposed the “Employee Free Choice Act.”

The elimination of secret ballot elections is opposed even by union members. In 2004, a Zogby International poll of more than 700 union members found 78 percent believed Congress should keep the secret ballot election process in place.

WEA Wants to Circumvent Court

The U.S. Supreme Court is expected to hand down its ruling in Davenport v. WEA and Washington v. WEA by June 2007. The decision will settle whether Washington state’s paycheck protection law is constitutional and does not burden the Washington Education Association’s (WEA) free political speech rights.

But WEA is not waiting for the ruling to continue its campaign to undermine the law. It drafted legislation, introduced in both the House and Senate, to gut the law, which was passed by 72 percent of voters in 1992, and circumvent any ruling.

The legislation, if passed, will create a presumption that “a labor organization does not use agency shop fees when it uses its general treasury funds to make such contributions or expenditures” if it can cover the expenditures with funds from non-agency fee sources.

That language runs counter to established U.S. Supreme Court precedent.

Ryan Bedford (rbbedford@effwa.org) is a labor analyst with the Evergreen Freedom Foundation in Olympia, Washington.

INTERNET INFO


New York City Has Nation’s Highest and Lowest Income Tax Burdens: Report

By Gerald Prante

The Tax Foundation has released three new datasets that show how much in federal income taxes individuals in the nation’s congressional districts, counties, and major city areas (metropolitan statistical areas, or MSAs) paid in tax year 2004.

The nation’s tax burden is the highest in the region surrounding New York City, the data show.

Rep. Carolyn Maloney’s (D-NY) congressional district tops the list in terms of income taxes paid as a percentage of adjusted gross income (AGI). The area she represents includes part of Manhattan (New York County), which was the top county in the country by that measure.

Taxpayers in Stamford-Norwalk, just east of New York City, paid more income tax than taxpayers in any other MSA.

**Bronx District Gets Refunds**

Near Maloney’s district is also the only Congressional district in the nation that has a negative overall federal individual income tax liability. Rep. Jose Serrano’s (D-NY) 16th district, which includes parts of the Bronx, receives more in refundable credits (such as the earned income tax credit) than it pays in income taxes.

**Poor, Wealthy Go Democratic**

Overall, both Republican and Democratic districts have an average effective income tax rate of 11.1 percent. Democrats, however, tend to represent disproportionately very low-taxpaying districts and very high-taxpaying ones. Democrats represent 29 of the top 50 taxpaying districts, while also representing 43 of the bottom 50 taxpaying districts.

The data were released as a preview of a Tax Foundation *Special Report* forthcoming this spring that will present the total federal tax burden by these three geographic units. The project is intended to give citizens, researchers, media, and federal lawmakers a detailed illustration of the geographic distribution of the federal tax burden.

Gerald Prante (gtp@taxfoundation.org) is a staff economist at the Tax Foundation in Washington, DC. An earlier version of this article appeared in the Tax Foundation’s Fiscal Fact No. 73, published January 17. Used by permission.

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**Table 1. Federal Individual Income Tax Burden by Congressional District: Highest-Paying Districts**

<table>
<thead>
<tr>
<th>Rank</th>
<th>Member (Party)</th>
<th>District</th>
<th>Federal Income Taxes as a % of AGI</th>
<th>Average Tax Liability per Return</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Carolyn Maloney (D)</td>
<td>NY - 14</td>
<td>20.8%</td>
<td>$32,485</td>
</tr>
<tr>
<td>2</td>
<td>Henry Waxman (D)</td>
<td>CA - 30</td>
<td>20.5%</td>
<td>$27,238</td>
</tr>
<tr>
<td>3</td>
<td>Christopher Shays (R)</td>
<td>CT - 4</td>
<td>20.3%</td>
<td>$28,250</td>
</tr>
<tr>
<td>4</td>
<td>Jerrold Nadler (D)</td>
<td>NY - 8</td>
<td>19.3%</td>
<td>$23,155</td>
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<tr>
<td>5</td>
<td>Nita Lowey (D)</td>
<td>NY - 18</td>
<td>18.5%</td>
<td>$22,196</td>
</tr>
<tr>
<td>6</td>
<td>Mark Kirk (R)</td>
<td>IL - 10</td>
<td>18.2%</td>
<td>$20,612</td>
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<tr>
<td>7</td>
<td>Pete Sessions (R)</td>
<td>TX - 32</td>
<td>17.7%</td>
<td>$13,697</td>
</tr>
<tr>
<td>8</td>
<td>John Culberson (R)</td>
<td>TX - 17</td>
<td>17.5%</td>
<td>$15,202</td>
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<tr>
<td>9</td>
<td>Anna Eshoo (D)</td>
<td>CA - 14</td>
<td>17.0%</td>
<td>$21,671</td>
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<tr>
<td>10</td>
<td>Rodney Frelinghuysen (R)</td>
<td>NJ - 11</td>
<td>16.9%</td>
<td>$17,001</td>
</tr>
</tbody>
</table>

**Table 2. Federal Individual Income Tax Burden by County: Highest-Paying Counties**

<table>
<thead>
<tr>
<th>Rank</th>
<th>County</th>
<th>State</th>
<th>Federal Income Taxes as a % of AGI</th>
<th>Average Tax Liability per Return</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>New York (Manhattan)</td>
<td>NY</td>
<td>20.0%</td>
<td>$25,875</td>
</tr>
<tr>
<td>2</td>
<td>Fairfield</td>
<td>CT</td>
<td>19.4%</td>
<td>$23,479</td>
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<tr>
<td>3</td>
<td>Teton</td>
<td>WY</td>
<td>18.3%</td>
<td>$27,015</td>
</tr>
<tr>
<td>4</td>
<td>Westchester</td>
<td>NY</td>
<td>17.8%</td>
<td>$19,411</td>
</tr>
<tr>
<td>5</td>
<td>Pitkin</td>
<td>CO</td>
<td>17.6%</td>
<td>$24,001</td>
</tr>
<tr>
<td>6</td>
<td>Collier</td>
<td>FL</td>
<td>17.4%</td>
<td>$16,966</td>
</tr>
<tr>
<td>7</td>
<td>Union</td>
<td>SD</td>
<td>17.2%</td>
<td>$14,006</td>
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<tr>
<td>8</td>
<td>Marin</td>
<td>CA</td>
<td>16.8%</td>
<td>$18,365</td>
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<tr>
<td>9</td>
<td>Somerset</td>
<td>NJ</td>
<td>16.8%</td>
<td>$16,502</td>
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<tr>
<td>10</td>
<td>Morris</td>
<td>NJ</td>
<td>16.3%</td>
<td>$15,296</td>
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</table>

**Table 3. Federal Individual Income Tax Burden by Major City Area: Highest-Paying Areas**

<table>
<thead>
<tr>
<th>Rank</th>
<th>Major City Area (MSA)</th>
<th>State</th>
<th>Federal Income Taxes as a % of AGI</th>
<th>Average Tax Liability per Return</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Stamford - Norwalk</td>
<td>CT</td>
<td>22.0%</td>
<td>$41,496</td>
</tr>
<tr>
<td>2</td>
<td>Naples</td>
<td>FL</td>
<td>17.4%</td>
<td>$16,849</td>
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<tr>
<td>3</td>
<td>San Francisco</td>
<td>CA</td>
<td>16.0%</td>
<td>$14,279</td>
</tr>
<tr>
<td>4</td>
<td>West Palm Beach - Boca Raton</td>
<td>FL</td>
<td>15.1%</td>
<td>$11,014</td>
</tr>
<tr>
<td>5</td>
<td>Danbury</td>
<td>CT</td>
<td>15.0%</td>
<td>$12,324</td>
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<tr>
<td>6</td>
<td>Boston</td>
<td>MA</td>
<td>14.7%</td>
<td>$10,698</td>
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<tr>
<td>7</td>
<td>New York</td>
<td>NY</td>
<td>14.7%</td>
<td>$9,602</td>
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<tr>
<td>8</td>
<td>Bergen Passaic</td>
<td>NJ</td>
<td>14.4%</td>
<td>$10,339</td>
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<tr>
<td>9</td>
<td>Newark</td>
<td>NJ</td>
<td>14.4%</td>
<td>$10,146</td>
</tr>
<tr>
<td>10</td>
<td>San Jose</td>
<td>CA</td>
<td>14.2%</td>
<td>$11,726</td>
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</tbody>
</table>

Note for all tables: The federal individual income tax liability equals income tax after credits minus the refundable portions of EITC and the child tax credit.

Source for all tables: Internal Revenue Service, Tax Foundation
Isn’t it time you joined a think tank?

The Heartland Institute is a national nonprofit organization devoted to informing elected officials and the public on important public policy issues. It publishes *Budget & Tax News*, as well as monthly newspapers on environment issues, health care, information technology, and school reform and other publications addressing a wide range of topics.

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

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ACCOUNT NUMBER

EXPIRATION DATE

SIGNATURE

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