California Internet Tax Sparks Battle
California Gov. Jerry Brown has signed legislation requiring out-of-state online retailers to collect and remit sales taxes. Amazon.com has responded by filing a petition to allow voters in the state to decide the matter.

Mica’s Heated Response
In a blistering letter to U.S. Chamber of Commerce President Thomas Donohue, Rep. John Mica, chairman of the House Transportation and Infrastructure Committee, scolded critics of the proposed House transportation bill.

TIF Does More Harm than Good
Using TIF, urban renewal agencies take away more than $10 billion a year that voters thought they had allocated to schools, fire, police, and other urban services.

Tax Holiday Wins Support
Members of Congress from both major political parties are calling for a “tax holiday” on repatriated earnings. During the tax holiday, multinational corporations may bring profits held overseas back to the United States and pay tax at a lower-than-usual rate.

Ohio Reforms Include Ending Estate Tax
Tax-cut crusaders achieved a monumental goal this summer when Ohio Gov. John Kasich (R) signed into law the new $55 billion biennial state budget, which includes a total repeal of the estate tax.

The estate tax repeal goes into effect January 1, 2013. Ohio is one of 22 states and the District of Columbia that have an estate or inheritance tax.

Kasich signed the budget June 30 after he and lawmakers crafted a spending plan that not only closed the state’s nearly $7.7 billion deficit but also cut property and income taxes, reduced spending, and privatized some state agencies.
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California Enacts Internet Tax; Amazon Backs Repeal Effort

By Steve Stanek

California Gov. Jerry Brown (D) has signed legislation requiring out-of-state online retailers to collect and remit sales taxes, even if the business has no physical presence within the state. The world’s largest online retailer—Amazon.com—has responded by filing a petition to allow voters in the state to decide the matter. To place the referendum on the next statewide ballot, 504,760 signatures must be collected from California residents.

The online tax law Brown signed in late June considers in-state advertising affiliates of an out-of-state online retailer to be a physical presence of the retailer itself. The referendum seeks to overturn the law and allow in-state advertising affiliates to get back into business with their online retailers.

Amazon, Overstock, and other online retailers have begun severing ties with their California online affiliates. Some of those affiliate advertisers have already announced plans to move to neighboring states.

Board of Equalization Squabble

“As I warned, Californians are losing jobs and lost income as a result of the so-called ‘Amazon Tax.’ It should come as no surprise that impacted California business owners would seek its repeal,” said George Runner, a member of the California Board of Equalization.

Runner said his staff has identified more than 30 online sellers that have terminated their affiliate programs in California.

“Each termination represents lost jobs and lost income for California—losses that could have been easily avoided had the governor and legislature exercised a little common sense,” he said.

One of his counterparts on the Board of Equalization, Betty Yee, had a decidedly different take: “It is in every Californian’s best interest for online-only and store-front businesses to play by the same rules,” Yee said in a statement. “I strongly doubt Californians will support allowing one mega-company to get a special tax advantage at the expense of thousands upon thousands of small and large businesses that provide jobs and are invested in this state.”

‘Unfair Competitive Advantage’

The Alliance for Main Street Fairness (AMSF) argues Amazon and other online retailers that don’t collect sales taxes unless they have a physical presence in a state have an advantage over in-state retailers. The group was created to end what it calls the “online sales tax loophole.”

“Amazon’s actions clearly demonstrate their number one priority is to maintain their unfair competitive advantage at the expense of taxpayers and small businesses,” said Bill Dombrowski, president and chief executive officer of the California Retailers Association, in a statement issued through AMSF. “Amazon’s continued disregard for the law has cost California tens of thousands of jobs and billions of dollars in lost economic activity. Their referendum demonstrates complete disregard for California employees and employers and would be a major job-killer in this state.”

The Performance Marketing Association, which represents online affiliates, says the California law is costing jobs and harming economic activity.

“We have said all along this tax will not garner any additional sales tax revenue for the state, but would instead result in an immediate 25 percent to 35 percent drop in affiliate marketers’ income, which could translate into the layoff of thousands of people statewide and businesses moving to other states, or perhaps even closing,” said Rebecca Madigan, executive director of the PMA.

“This referendum effort is a vehicle for affiliate marketers to continue to do business in California, which translates to real income for the state as these businesses pay their income tax, employment tax, plus other taxes. This translates to real income to the state, not the illusory gains falsely promised,” she said.

Madigan also noted California lawmakers had promised citizens “they would be the determining factor in new taxes. They were denied that opportunity with this nexus tax, and we are pleased they will now have the opportunity to weigh in on this issue that is a matter of keeping 25,000 California-based businesses up and running.”

Steve Stanek (sstanek@heartland.org) is a research fellow at The Heartland Institute and managing editor of Budget & Tax News.
N.C. Budget Becomes Law After Historic Veto Override

By David N. Bass

One may be the loneliest number, but two is the most contentious—at least it was in the North Carolina capitol this summer.

That was the percentage difference between Democratic Gov. Bev Perdue’s general fund budget for the next two fiscal years and Republican lawmakers’ final version, which became law in June after the GOP and five Democratic converts overrode the governor’s veto.

The variation—about $200 million in spending out of a $19.7 billion budget in the final year of the cycle—might seem small. But it wasn’t to Perdue, who uncapped her veto pen to strike down the spending plan, making her the first governor in North Carolina history to veto a spending plan. Governors received veto power over the budget in 1997.

Perdue said she issued the veto because the GOP approach would do “generational damage,” “oversight” and “leave behind” pre-school children, target the “environment and quality of life,” and tear “at the very fibers that have made this state strong.”

Republicans, in charge of the legislature for the first time since the Reconstruction era, disagreed. With the help of five Democrats, House Republicans overrode the veto, 73–46. The Senate later followed suit in a 31–19 party-line vote.

Differing Priorities

“This has been a session of real accomplishment,” said Senate leader Phil Berger, a Republican from Rockingham County, “and a real change in direction for North Carolina, a direction that the people of North Carolina have long been looking for.”

The main difference between the two spending plans boils down to priorities. Perdue’s proposed budget devoted more funds for public education and environmental regulatory agencies than the Republican plan did, and she relied on extending most of a “temporary” 1-cent sales tax to do it.

The GOP budget let the tax increase expire and modestly trimmed spending in other areas. Perdue’s proposal would have spent 1.4 percent more on public education and natural resources, twice the level Perdue recommended.

“I believe they chose to risk our children’s future and our state’s brand around the country and the world for less than a penny,” Perdue said.

Berger says the no-taxes move is about keeping promises. “I’ve said it this way: We intend to keep the promise the Democrats made two years ago when they said that they were temporary taxes,” he said.

Cracking the Conspiracy

What can one man do when he finds himself up against the most dangerous men in America? His only weapons are intellectual: a keen analytical mind and rational morality. His opponents have vast resources of money and power—and no moral limitations on their use. The Trojan Project is a technological fantasy set amid today’s political realities.

“Listen up, America! This book contains relevant and necessary information for every individual in this country today. It’s that powerful.”

— LORI CREVER, host of TV show “30 Minutes with the Author.

Courageous Five

The Republican caucus has 68 members in the 120-seat House. They needed four Democratic votes to achieve the three-fifths majority required to overcome a veto. The GOP ended up getting five.

“Courageous” was the term House Speaker Thom Tillis, Republican of Mecklenburg County, used to describe the converts.

“They know this is a good budget,” Tillis said. “They know this is the right thing for North Carolina. I’m very proud. They’re all men of honor and their word, and I’m proud to serve with them.”

Some Unhappiness

Although limited-government advocates have praised the budget, some second-tier provisions raised their ire.

Early versions of the budget redirected revenue from the Master Settlement Agreement with tobacco companies, closing the Tobacco Trust Fund and Health and Wellness Trust Fund and snagging the Golden LEAF Foundation’s $68 million appropriation. Conservatives have criticized the three entities as boondoggles.

The final compromise took a much tamer approach by leaving Golden LEAF mostly untouched.

‘Missed Opportunities’

The budget also sends a one-time appropriation of $500,000 to Johnson & Wales University, a culinary school in Charlotte that received millions in taxpayer dollars due to a personal promise from former House Speaker Jim Black, who served years in prison on a corruption conviction arising from his time in office.

Brian Balfour, a fiscal policy analyst for the conservative Civitas Institute, called the extra spending “missed opportunities.” He said they include subsidies to the North Carolina Symphony, aquariums, and local arts programs.

“For all their talk of ‘right-sizing’ state government, this budget made little attempt to actually eliminate lower-priority programs,” Balfour said.

You can purchase the book at http://www.amlibpub.com Each book will be signed by the author!

David N. Bass (dbass@carolinajournal.com) is an investigative reporter and associate editor with the John Locke Foundation.
Transportation Committee Chairman Hammers Critics, Defends Reforms

“It is a sad state of affairs that the U.S. Chamber of Commerce cannot express in a positive fashion the need to do much more for our nation’s infrastructure than just spend more taxpayers dollars.”

JOHN MICA, CHAIRMAN
HOUSE TRANSPORTATION AND INFRASTRUCTURE COMMITTEE
U.S. REPRESENTATIVE - FL

By C. Kenneth Orski

In a blistering letter to U.S. Chamber of Commerce President Thomas Donohue, Rep. John Mica (R-FL), chairman of the House Transportation and Infrastructure Committee, scolded the chairman—and indirectly other critics of the proposed House transportation bill, including the Democrats on his committee—for being “unable to recognize the reality that bankrupting the Highway Trust Fund and ignoring long overdue policy reforms are no longer options.”

“Our years of excessive deficit spending,” wrote the clearly angered chairman, “are at an end and responsible Congressional leaders must make difficult decisions about achieving real and tangible priorities. My primary priority is to produce a long-term reauthorization bill to provide states with the certainty they require for large-scale infrastructure planning, and instituting reforms to existing programs. ... A continuation of deficit spending and General Fund transfers will destroy the dedicated user-fee based Trust Fund.”

Nor did Mica mince any words in stating his opinion of the Washington lobbying establishment and liberal advocacy groups that have been lukewarm at best about the proposed bill.

‘A Clear Message’

“The American people,” Mica wrote, “sent a clear message in electing a U.S. House to change the way business is conducted in Washington. Thanks to recent and coming elections, the priorities of the American Taxpayer have been and will be placed ahead of the unchecked desires of some in Washington to spend money that is borrowed to support our Treasury. This new reality has proven to be frustrating for some in Washington who even fail to consider positive alternatives for supporting transportation projects and simply resort to deficit spending ‘come hell or highwater.’”

“It is a sad state of affairs,” the chairman concluded, “that the U.S. Chamber of Commerce cannot express in a positive fashion the need to do much more for our nation’s infrastructure than just spend more taxpayers dollars. ... The House Rules and the Congressional Budget Act place limitations on the ability to spend beyond the receipts of the Trust Fund.”

In his three-page letter the chairman also expressed concern over what he says is a growing adulteration of the federal-aid highway program.

‘Unproductive and Misguided’

The Highway Trust Fund, Mica wrote, was at one time intended to be a true “user fee” system designed to benefit those it taxed; yet it has evolved over the years into a slush fund, with less than 65 percent of its receipts dedicated to those paying the gas tax and much of the remaining money funneled into federally mandated programs that states and localities were not ready to pay for themselves. Continued support of these inflexible mandates that have depleted the Highway Trust Fund by diverting the limited transportation resources is “unproductive and misguided at best.”

The letter shows a Congressman who is clearly angered and unhappy about the barrage of what he considers to be unjustified and unfair criticism that greeted the release of his summary proposal. He expressed anger at critics who declared his committee’s proposed level of funding “unacceptable” or “grossly inadequate” but have not suggested any steps that would add money to the program. He also expressed displeasure with the Democratic minority in his own committee for refusing to recognize the constraints the chairman has worked under—House rules that forbid approving any new transportation funding that would add to the deficit.

‘Recipe for Bankrupting Fund’

Preemptively, Mica also dismissed Sen. Barbara Boxer’s (D-CA) proposal for a two-year bill as a “recipe for bankrupting the trust fund.” Such a bill, Mica contends, would not only quickly drive the trust fund deeper into insolvency but also would deprive states of the funding stability and predictability they need to plan major multiyear projects.

Nor is it clear how the $109 billion measure proposed (but not yet formally introduced) by Boxer is to be funded, with only about $70 billion ($35 billion/year) expected to be credited to the Highway Trust Fund over the next two years, according to the Congressional Budget Office.

Mica also questioned the purported job-creating potential of the Senate bill touted by Boxer. President Barack Obama himself admitted, “the shovel-ready projects are not as shovel-ready as we had thought.” Of the $65 billion authorized for transportation infrastructure projects within the president’s stimulus bill two years ago, 39 percent remains unspent, Mica noted.

In addition, a majority of Americans want the government to make deficit reduction the No. 1 priority even if that results in a slower economic recovery, a new McClatchy-Marist poll has found.

Sought-After Reforms

By focusing on the overall funding level, critics tend to lose sight of the programmatic reforms Mica has introduced and steered through his committee. Although the detailed legislative proposal has yet to be released, we do know the proposed legislation includes many reforms the transportation community has sought for many years.

These reforms include consolidating or eliminating some 70 programs that do not serve a federal purpose; streamlining the project delivery process and setting hard deadlines for federal project approval; holding grantees accountable for performance; abolishing federal mandates for peripheral “enhancement” activities (but permitting states to fund them on their own if they so choose); expanding the Transportation Infrastructure Finance and Innovation Act (TIFIA) loan program; encouraging states to create State Infrastructure Banks to finance transportation investments at the state level; and encouraging private investment in transportation facilities.

That is an impressive catalogue of reforms.

C. Kenneth Orski (korski@verizon.net) is editor and publisher of Innovation NewsBriefs, where an earlier version of this article appeared. Used with permission.
Minnesota Government Shutdown Ends After Impasse

Continued from page 1

40 years and wanted more spending cuts, against Democrat Gov. Mark Dayton, who wanted higher income taxes on upper-income earners.

The budget cuts less spending than Republican lawmakers wanted and does not have the tax increases Dayton wanted.

State road construction stopped and most state offices, a zoo, parks, and other state facilities were closed as approximately 22,000 state workers sat home during the budget standoff that began July 1.

Failure to adopt a budget by the start of the new fiscal year showed how far apart Dayton's plan was from what Republicans who control the legislature wanted.

In a press conference shortly before the deadline for reaching a deal passed, Dayton said, “One basic difference remains. They don't want to raise revenues on anyone and I believe the wealthiest Minnesotans can afford to pay more taxes.”

Higher Taxes on High Earners

Dayton had called for lawmakers to impose a top income tax rate of nearly 11 percent on single persons earning more than $150,000, heads of households earning more than $200,000, and joint filers with incomes of more than $250,000. After negotiations broke down Dayton announced he had offered to apply the top rate only to incomes of $1 million or more—approximately 7,700 of the state’s income tax filers.

Phil Krinke, president of the Taxpayers League of Minnesota and a former state lawmaker, noted the top 2 percent of Minnesota earners already pay 30 percent of the state’s income tax burden.

Lawmakers had passed a budget that would have raised spending 12 percent over two years—without increasing tax rates—yet they still could not come to terms with the governor.

“We will not saddle our children and grandchildren with mounds of debts, with promises for funding levels that will not be there in the future,” said House Speaker Kurt Zellers (R-Maple Grove) in a statement explaining opposition to the governor’s proposals.

In February, Dayton introduced his initial budget, in which he proposed a multitude of new taxes that would take another $4 billion from businesses and individuals. At the time, Minnesota faced a budget deficit exceeding $6 billion. Subsequent revenue forecasts have lowered the expected deficit to $5 billion.

$1.8 Billion Increase

With a smaller deficit to balance and under pressure to adopt larger spending cuts, Dayton announced he would pare his tax hike to approximately $1.8 billion.

“No economic data Gov. Dayton has provided shows that this will help Minnesota,” said Peter Nelson, a lawyer and policy analyst at the Center for the American Experiment.

Dayton also called for an increase and expansion of the state’s sales tax—including raising taxes on seats purchased at sports stadiums, admissions to car and home shows, and digital video recording and satellite TV purchases. He also called for a change in the way the state calculates corporate taxes. State budget officials estimated that change would have pulled another $270 million annually out of businesses in the state.

“There is this sense at least from Gov. Dayton that raising taxes isn’t going to have an impact on our economy; that rich people won’t move away or move their money away,” Nelson said.

Impact On All Earners

Though Dayton pitched his tax hikes as an effort to make the highest-income citizens pay more, Nelson stressed the plan would have had the most impact on lower-income Minnesotans and owners of small businesses.

“Our Department of Revenue has created a tax incidence study of his tax plan, and his tax plan will fall on all income levels anyway,” Nelson said.

Tony Sutton, chairman of the Republican Party of Minnesota, said he was flabbergasted by Dayton’s proposal.

“I think the governor is an old-fashioned liberal. He really believes the state government needs more money for spending, and so he believes that raising taxes is the way to accomplish that,” Sutton said. “I think the governor feels this way because he has never had to make a payroll or even had to depend on earning a paycheck to earn a living.”

Dayton is a scion of the family that started what is now the Target Corporation store chain.

“He is a dilettante lecturing businesspeople in this state on how to live their lives and run their businesses,” Sutton said. “As a small-business owner, I know what it is like to sweat out making a payroll. Sometimes you even hold your own check in order to ensure that people get paid because they depend on it. He has never had to experience these things.”

Nelson says Dayton appears to believe his tax hike plan will not affect Minnesota’s economy.

“There is the idea that this isn’t an issue,” he said. “This whole idea of taxing the rich is an idea he brought with him from his bid for the governorship. It is deeply ingrained in his belief on where Minnesota should head. You look at taxing the rich and that is part of his message.”

Thomas Cheplick (thomascheplick@yahoo.com) writes from Cambridge, Massachusetts.
New Taxes, Higher Fees in Calif. Budget

Governor vows to keep working for higher taxes

By Thomas Cheplick

A sales tax on online retailers, less money for higher education, and more than $5 billion of additional revenue from high-income residents are in the budget California’s Democrat lawmakers and governor agreed to June 28.

The agreement came two weeks after Gov. Jerry Brown (D) vetoed a budget with a projected deficit of $9.6 billion.

The new budget also calls for ending and replacing some 400 local economic redevelopment agencies for a savings of $1.7 billion. Defenders of the redevelopment agencies are threatening to file a lawsuit to keep them from being defunded.

Some Taxes Expire

The new budget does not include any changes in public employee pensions, environmental regulations, or spending restraints that Republicans had been demanding in exchange for approving a special election on taxes. However, some temporary taxes that lawmakers approved two years earlier were allowed to expire June 30.

Brown said he may try to rake in still more tax revenue with a ballot measure in November 2012.

The new budget calls for $5.2 billion more in projected and actual tax revenues than were estimated in the vetoed budget. Budget officials said the larger tax haul would result largely from unexpected personal income growth for wealthy Californians. If revenues come in below the budget estimates, however, there could be up to $2.6 billion in additional spending cuts.

Assembly Republican Leader Connie Conway of Tulare issued a statement saying the GOP’s “steadfast opposition to higher taxes has helped remind Sacramento tax-and-spend liberals of the need to live within our means.”

Family Savings Predicted

Conway said the expirations of a retail sales tax increase and a motor vehicle tax will result in the average California family saving nearly $1,000 a year. An increase in the personal income tax is set to expire in 2013.

Shortly before Brown and the Democratic lawmakers announced their budget agreement, several Republican legislators said they could support allowing voters to decide on extending the temporary taxes.

Brown had proposed eliminating 43 state boards and commissions as well as 5,500 state employee positions if the election were agreed on.

Chris Street, who served as treasurer of Orange County, California from 2007 to 2011 and has been following the California budget situation, noted, “For the first time, the Republicans are not willing to cut a deal where a few term-limited Republicans [in the state legislature] vote for a tax increase, then get paid back with a lucrative appointment to a $100,000 salaried seat on some obscure state agency board. The minority Republican leader has always structured this insider dealing to look like a couple of

Jerry Brown
Governor - CA

Republicans ‘went rogue’.

Kris Vosburgh, executive director of the Howard Jarvis Taxpayers Association, said no one knows what is going to happen to California’s finances.

“If I knew, I would be governor,” Vosburgh said. “What California does next is a mystery to just about everybody.”

Thomas Cheplick (thomascheplick@yahoo.com) writes from Cambridge, Massachusetts.

The 2011 Emerging Issues Forum for Legislators is Coming!!!

Join hundreds of colleagues from across the country October 13 in Chicago, as we explore emerging issues in state public policy in the areas of climate change, the economy, education, technology, and more.

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Afterward, please join us in celebration of The Heartland Institute’s 27th anniversary at the Anniversary Benefit Dinner, 5:30 pm – 9:00 pm at the beautiful and historic Hilton Chicago Hotel on South Michigan Avenue.

Admission to both events is free for elected officials and their spouses. Members of The Legislative Forum at The Heartland Institute also will receive a travel allowance and complimentary accommodation for up to two nights’ lodging. Details on costs for others to attend is available by visiting our Web site, www.heartland.org.

For more information, including ways your organization can become a sponsor, or to reserve your place at this exciting event, contact John Nothdurft, director of government relations, at 312-377-4000 or email jnothdurft@heartland.org.
State Gaming Revenues Up But Still Below ’08 Levels

By John W. Skorb
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State gambling revenues rose 2 percent in 2010, after a decline in 2009, according to a study by the Nelson A. Rockefeller Institute of Government at the University of Albany. This move back into the black still leaves state takes from gambling slightly below 2008 levels.

“State-local gambling revenues from lotteries, casinos, racinos, and pari-mutuel wagering increased by 2.0 percent in fiscal 2010, but were still 0.5 percent lower than collections in FY 2008,” the report notes. A racino is a combined racetrack and casino.

Report authors Lucy Dadayan and Robert B. Ward blame much of the decline in gambling revenues in 2009 on the poor economy.

Declines in Discretionary Income

“Such weakness in revenues from gambling activities is likely driven partly or largely by declines in consumers’ discretionary income, which has also been reflected in indicators such as retail sales and travel expenditures,” according to the report. “States have seen periods of slower growth in gambling revenue in past business cycles, but outright declines on a year-over-year basis are rare.”

Income from lotteries, commercial casinos, racinos, and pari-mutuel wagering combined increased 59 percent from fiscal year 1998 to 2010—rising from $15 billion to $24 billion, for an average annual increase of 4 percent. This appears to be on par with increases in other state revenue sources.

Increase Due to Expansion

“States’ revenues from the four major types of gambling rose continuously from 1998 to 2008, dropped in 2009, and resumed growth in 2010. A significant proportion of the growth in such revenue is attributable to expansion of gambling activities such as legalization in new states, opening of new casinos and racinos, and introduction of new lottery games,” wrote Dadayan and Ward.

While casinos and racinos are the focus of attention in many states, lotteries remain the primary source of gambling revenue for governments.

“In fiscal 2010, the 43 states with legalized lottery operations collected about $417 million or 2.6 percent more in income from state lotteries, the largest source of gambling revenue, than in the previous year,” according to the report.

Many states have had to invent new and flashier games to retain their customer base. In some cases, states have come together to form a “super lottery game” to keep the hype going. Without the new lottery games, revenues would have declined.

“Overall state revenues from lotteries, including revenues from hands-on video lottery terminals, more than doubled from $8.8 billion in 1993 to $17.9 billion in 2010. This large increase in revenues is partially attributable to the emergence of video lottery terminals [VLTs] since the early 1990s in states such as Delaware, New York, Rhode Island, and West Virginia,” noted Dadayan and Ward.

Fifteen with Commercial Casinos

Commercial casinos are operated by businesses and taxed by the states. Currently, 15 states have legalized operational commercial casinos. Nevada was the first to legalize the operation of casinos, in 1931, followed by New Jersey in 1976.

Las Vegas and Atlantic City have historically been the cities of choice for tourists and serious gamblers in all 50 states.

Another 13 states have legalized casinos since 1989. Kansas, Maryland, and West Virginia are the most recent three states to legalize casino operations. In Maryland the first casino was opened in September 2010. In West Virginia, the first casino opened in July 2010.

Illinois is also looking to expand land-based casinos, with a bill on the governor’s desk ready for signing. But Senate President John Cullerton (D-Chicago) has filed a motion to reconsider the bill, a procedural move that blocks Gov. Pat Quinn (D) from taking any action. Quinn has expressed reservations about the measure.

Biggest Share in Nevada

Total state revenues from lotteries, commercial casinos, racinos, and pari-mutuel wagering combined amounted to no less than 2.1 percent and no more than 2.5 percent of state own-source general revenues between fiscal years 1998 and 2009, according to the report.

In fiscal year 2009, Nevada, Rhode Island, and West Virginia had the highest shares of gambling revenue as a percentage of total state revenue. In Nevada, gambling revenue made up 12.5 percent of own-source general revenue, with Rhode Island and West Virginia having shares of 8.4 percent each.

In total gambling-related revenues, New York continues to lead the states, followed by Pennsylvania, Florida, and New Jersey.

Alabama, Arkansas, and Wyoming rely the least on revenue from gambling.

Shrinking Economy, Gambling Expansion

According to Dadayan and Ward, “States are most likely to legalize new gambling operations [at a time] when tax revenues are depressed by a weak economy or to pay for new spending programs.

“Additional steps to legalize, expand, and encourage gambling through various measures were particularly notable during and after the Great Recession as states have sought to respond to historic declines in tax revenues. Still, overall growth in revenue from gambling has been weak in recent years, [when] compared to historical levels,” they added.

John W. Skorb (jskorb@heartland.org) is associate editor of Budget & Tax News and a visiting lecturer in economics at the University of Illinois at Chicago (UIC).

Internet Info

Fraud Rampant in Obama Weatherization Program

By Cheryl K. Chumley

A $5 billion plan pushed by President Barack Obama to help lower-income homeowners reduce their energy bills is rife with mismanagement, waste, and fraud, a government audit has found.

Widespread Problems
An audit recently released by the U.S. Department of Energy’s Office of Inspector General found weatherization officials disregarded federal program rules, gave special treatment to family members who were accepted into the program, and performed subpar work on homes in some states.

“We found problems in the areas of weatherization workmanship, financial management, prioritization of applicants for weatherization services and compliance with laws and regulations,” DOE Inspector General Gregory Friedman wrote in a statement accompanying the audit. “Unless the weaknesses identified in this report are addressed ... the risks of fraud, waste and abuse remain at unacceptable levels.”

Numerous States Involved
The weatherization program began decades ago. But Obama spent stimulus funds—$5 billion of them—to ramp up weatherization efforts while selling the public on his green jobs stimulus plan. Fraud has been widespread under the ramped-up program.

In Delaware, for example, inspectors found problems with hundreds of home repairs and retrofits. Repairs to improperly retrofitted homes could cost Delaware taxpayers $7.5 million, according to some estimates, and that’s more than half of the entire federal stimulus package the state received in 2009.

The report found other states also have experienced fraud and waste in the program, including Florida, Illinois, New Jersey, Pennsylvania, Tennessee, Texas, and Virginia.

Auditors are also looking at West Virginia. In 2009, the state received $38 million for weatherization efforts. Only 1,800 of 3,500 homes targeted for upgrades, repairs, and retrofits have received the necessary work.

Fraud Not a Surprise
Sterling Burnett, a senior fellow with the National Center for Policy Analysis, says the reports of waste and fraud in the weatherization program come as no surprise.

“This isn’t uncommon,” Burnett said. “That’s the nature of government programs whenever there are appropriations involved. Once government gets in the business of telling us what products to use and subsidizing those products, standard accounting practices go out the window.”

Common sense and fiscal responsibility would put the entire weatherization program on hold, at least to allow the economy time to improve, he said.

“One would think in a time of fiscal austerity this would be one of the programs that go by the wayside real quick,” Burnett said. “I’ll wager that many of the upgrades took place on people’s houses who could afford it without the subsidy. That’s what happened with solar subsidies. ... Programs like this are generally welfare for the well-to-do and moderately well-to-do.”

Cheryl K. Chumley (ckchumley@aol.com) writes from northern Virginia.
Crony Capitalism, Social Engineering

By Randal O'Toole

What do a car dealership in Belleville, Illinois; a Walmart in Bridgeport, Missouri; housing for the homeless in San Diego, California; a delicatessen in Ann Arbor, Michigan; and streetcar lines in St. Louis, Missouri, Ft. Worth, Texas, and Portland, Oregon have in common?

All were subsidized by an urban renewal trick known as tax-increment financing (TIF). Due to TIF, urban renewal is one of the fastest-growing parts of local government.

Using TIF, urban renewal agencies effectively steal more than $10 billion a year that voters thought they had allocated to schools, fire departments, police, and other urban services. Yet the work these renewal agencies do has little value and may hinder economic growth.

The theory behind TIF is that an urban renewal project will increase the property taxes (and sometimes sales and other taxes) collected from the neighborhood of the project. The increase in tax collections is called the increment. The increment subsidizes the redevelopment.

Bogus ‘But-For’ Claims

TIF advocates like to say TIF is free money.

“But for the redevelopment,” they argue, the incremental taxes would never have been collected, so schools, fire departments, and other agencies that would normally receive those taxes are not missing out. Known as the “but-for” test, this statement is required by many states, yet it is almost always untrue.

Once an area has been designated a TIF district, all increases in property values, whether from inflation or from developments that would have happened without the TIF, produce money for the urban-renewal agency. The fact that TIF districts benefit from inflation is particularly insidious because schools and other entities see their costs inflate but their revenues remain flat.

TIF-subsidized developments impose costs on fire, police, and other agencies that are normally funded out of property taxes. Because those agencies must pay those costs out of their existing tax base, other taxpayers end up receiving a lower level of services or must pay more taxes to compensate.

And in a growing region, new development is going to take place somewhere, and the taxes collected from that development would go to schools and other agencies. At best, all TIF does is direct the new development to a particular neighborhood, which means a development somewhere else that would have generated taxes for schools and other programs does not take place.

More Hindrance than Help

Some researchers have found that cities that use TIF actually grow more slowly than ones that do not. There are two reasons: First, by imposing a higher tax burden (or providing fewer services), TIF may discourage businesses from locating or expanding in cities that use it. Second, TIF creates a moral hazard. If TIF is used to subsidize, say, a new hotel, other hotel developers won’t build in the city unless they, too, receive subsidies.

Between 2005 and 2010, cities sold $3.3 billion of TIF bonds a year. Because these bonds will typically be repaid with interest over a 30-year period, the tax collections required to repay them will be roughly double the value of the bonds.

In what is known as “pay-as-you-go” TIF, cities sometimes use the annual TIF collections to make regular improvements to the district. This reduces interest charges but it can also mean that cities keep collecting the incremental taxes for the maximum number of years allowed by state law.

Since TIF provides the money used to finance many of the more controversial eminent domain programs, it raises issues that will be familiar to those who oppose eminent domain for redevelopment. For example, most states require a city to find that a neighborhood is blighted before creating a TIF district. Yet some cities have included undeveloped greenfields in TIF districts, and a few have declared all the land within their limits to be blighted.

Two Retailers, One Billion Dollars

Not surprisingly, some developers and companies have grown to specialize in TIF projects. The nation’s two largest sporting goods retailers, Cabela’s and Bass Pro, have between them received approximately one billion dollars of subsidies, usually financed through TIF, for their stores. This has outraged Gander Mountain—the nation’s third-largest sporting-goods retailer—whose CEO Mark Baker is an outspoken opponent of TIF and other “anticompetitive” subsidies.

Cities use TIF to support redevelopment in two ways. Most commonly, planners project the increase in taxes that a TIF district will collect over the next 20 to 30 years and then sell bonds that will be repaid by those taxes. The bonds are used to buy the land, clear existing structures, provide new infrastructure,
“Once an area has been designated a TIF district, all increases in property values, whether from inflation or from developments that would have happened without the TIF, produce money for the urban-renewal agency.”

Crony Capitalism, Ideology Explain Appeal of TIF Districts

City officials often use TIF to consolidate their power and engage in crony capitalism. In Richard M. Daley’s Chicago, critics called TIF Daley’s “slush fund” and accused him of using it to reward loyal aldermen and punish those who opposed him. Daley served as mayor from 1989 until his final term expired earlier this year.

In cities such as Portland, Oregon, a handful of developers and contractors receive most of the benefits from TIF, and they gladly fill the campaign war chests of politicians who support TIF.

Urban planners have a different incentive to favor TIF. Many planners fervently believe suburbs of single-family homes are the wrong way to live because they encourage people to drive too much. But few Americans are ready to move back to high-density cities.

Market Manipulation

So the planners use TIF to subsidize the high-density, mixed-use developments along transit lines that they think people should live in. To be sure, there is a market for such developments, but it is much smaller than planners want, and even with subsidies many of the TIF-supported developments built in Portland, Denver, and other cities have high vacancy rates.

In states that have an initiative petition process, voters in a few smaller cities—including Estes Park, Colorado and Canby, Oregon—have passed ballot measures forbidding local officials from creating new TIF districts and renewing existing ones without voter approval. But many states do not allow voters to put such measures on the ballot.

Complete data are not available for every state, but evidence indicates California uses TIF as much as all other states combined. Urban-redevelopment agencies in the Golden State collect more than $150 in taxes for every resident of the state, approximately five times the national average. California cities collect about $5.7 billion a year in TIF revenues, about $3 billion of which goes to repay bonds.

California’s Rollback

Nearly the first thing Gov. Jerry Brown (D) did on taking office in 2011 was to propose an end to redevelopment agencies to free up money for schools. Lawmakers passed a bill killing urban redevelopment districts and Brown signed it on June 29.

By terminating TIF districts, the state can immediately free up the $2.7 billion for schools and other programs, and the other $3 billion will become available as the bonds are paid off.

TIF is also controversial in Chicago, where some aldermen are demanding the program be ended. Nearly one-third of Chicago is in a TIF district. Rather than being used to cure blight, many of the TIF districts subsidize middle- or upper-middle-class neighborhoods. Even the city’s famed Loop business district, including the Chicago Mercantile Exchange, is in a TIF.

Chicago’s new mayor, Rahm Emanuel, says he wants to reform TIF so that it is used solely for truly blighted neighborhoods.

The problem with such reforms is that they assume city officials are saints. Even if Emanuel used TIF responsibly, his successors would be tempted to use it as Daley did, to consolidate their power.

No matter how well-defined in the law, terms like “blight” and “but for” may be manipulated to justify needless and expensive projects. State legislatures should simply repeal the laws that give cities the authority to use TIF and similar tools for subsidizing economic development.

— Randal O’Toole

Randal O’Toole (rot@cato.org) is a senior fellow for urban growth and transportation issues at the Cato Institute.

TIF Began in Racially Divisive Slum Clearance

Urban renewal began in earnest in 1949, when Congress began giving grants to cities for “slum clearance”—the removal of high-density tenements that working-class families were abandoning for low-density suburbs.

The theory behind urban renewal was that slums were so bad no individual property owner would try to gentrify them because the value of any investments they made would be reduced by the blight in the surrounding neighborhood.

The program soon generated enormous controversy. Housing advocates noted one million people were displaced by urban renewal, but few of them could afford the housing that was often built in place of the tenements.

Most of the displaced people were black, leading the late American writer and civil rights activist James Baldwin to rebuff urban renewal as “Negro removal.”

Architecture critic Jane Jacobs and sociologist Herbert Gans showed many of the neighborhoods targeted for clearance were not really blighted but were living, vital communities. Due to such criticisms, Congress terminated the program in 1974 after having given cities the equivalent of $50 billion in today’s dollars.

By that time, most true, high-density slums already had been replaced—and mostly by private developers, not government programs. But across the nation scores of cities had urban renewal programs that gave politicians power, earned profits for contractors, and kept the real estate market churning. The termination of federal funding threatened these programs.

To the rescue came tax-increment financing (TIF), which had been invented by the California legislature in 1952. The theory behind TIF was that an urban-renewal project would increase the property taxes (and sometimes sales and other taxes) collected from the neighborhood of the project. Cities could use that incremental increase in taxes to subsidize the redevelopment.

When Congress ended the federal program, only eight states had joined California in letting cities use TIF. But within five years, 15 more states authorized TIF, and today every state but Arizona allows it.

— Randal O’Toole

Rahm Emanuel
Mayor - Chicago

Budget & Tax News September 2011 11
Only Four States Have Money to Pay Obligations

By Nancy Mathieson

Only four states have sufficient assets to pay their debt and obligations for pensions and retirees’ health care, according to a report from the Institute for Truth in Accounting.

The study determined six states have per-taxpayer burdens of more than $20,000: Connecticut ($41,200), Illinois ($26,800), Hawaii ($25,000), Kentucky ($23,800), Massachusetts ($20,100), and New Jersey ($34,600). The taxpayer burden represents the funds needed to pay the commitments the state already has accumulated, divided by the number of taxpayers in the state.

“If governors and legislatures had truly balanced each state’s budget, no taxpayer's financial burden would exist,” said Sheila Weinberg, founder and CEO of the institute. “A state budget is not balanced if past costs, including those for employees’ retirement benefits, are pushed into the future.”

The study found four states (Nebraska, North Dakota, Utah, and Wyoming) have assets available to pay their debt and obligations related to pension and retirees’ health care. Wyoming is in the best shape, with a per-taxpayer cushion of $15,100. Nebraska follows with a per-taxpayer cushion of $6,400, followed by Nebraska with $2,500 and North Dakota with $2,200.

All other states owe more than they have on hand to pay their obligations.

The study reviewed each state’s Comprehensive Annual Financial Report to offset assets against liabilities. For the first time, a detailed analysis of pension and health care liabilities uncovered the states’ actual obligations. From these calculations, the institute was able to determine the taxpayer burden.

Employee compensation packages include retirement benefits. A portion of these benefits is earned each period and should be included in the current budget as a portion of current employee compensation costs. Instead, most states handle many benefits on a “pay as you go” basis. This obligates future taxpayers to cover these past costs without receiving any benefits or services.

“Though 49 of the 50 states have constitutional or legal requirements to balance budgets, most states employ a variety of financial maneuvers to circumvent this requirement,” said Roger Nelson, chairman of the institute and former vice chairman of Ernst & Young, one of the world’s largest accounting and business consulting firms. “The largest of these maneuvers is related to employee compensation.”

Nancy Mathieson (nancymath@aol.com) is operations director at the Institute for Truth in Accounting.

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More Money, Equipment, Manpower for IRS Enforcement

By Daniel J. Pilla

I have paid keen attention to IRS spending over the years because the manner in which the IRS spends is a look into the future. We can glean with reasonable accuracy where the IRS intends to devote its time and energy.

The Government Accountability Office (GAO) recently issued its report discussing the IRS’s 2012 proposed budget. The report breaks down the spending proposed by the IRS and addresses the so-called “revenue increasing recommendations” that were presented in previous GAO reports.

20 Percent Rise Since 2008

President Barack Obama requested $13.3 billion to fund the IRS’s 2012 operations. This figure constitutes a $1.14 billion, or 9.4 percent, increase over 2010 and a whopping 20 percent increase over the 2008 budget. (GAO-11-547, IRS Budget 2012, p. 4). The three key areas of IRS spending are:

• $2.3 billion for taxpayer services, assistance, etc.,
• $4.6 billion for operations support, and
• $6 billion for enforcement of the tax laws.

The justification the IRS uses to increase its budget is because of its "unique function as the revenue center of the government." The IRS argues that its "budget increase actually reduces the deficit through increased tax enforcement revenues" (IRS FY 2012 Budget Proposal Summary, FS-2011-09, Feb. 2011) (hereinafter “IRS 2012 Budget Summary”).

Increasing Enforcement

It seems the core of this budget is about increasing enforcement. In fact, the GAO points out that most of the 2012 increase is "for the Enforcement and Operations Support appropriations," through the use of "17 new enforcement, taxpayer service, and other initiatives with a total cost of approximately $839 million.”

The key enforcement initiatives mentioned very generally in this budget are:

• increased international activities;
• increased collection functions on current delinquent accounts through more lien and levy action;
• implement the new information reporting rules for credit card companies and securities companies; and
• implement the new 1099 reporting requirements. (Note, however, that the 1099 reporting requirements imposed under the Patient Protection and Affordable Care Act were repealed.)

The IRS suggests these new initiatives will have an average return on investment of 6.4 to 1—meaning for every dollar the IRS spends on these initiatives, the agency will collect $6.40 of additional taxes. With this claim of return on investment, it’s no wonder Congress is willing to continue funding the IRS’s every wish.

These new initiatives are in addition to the enforcement initiatives that are already a priority for the IRS. These include:

• employment tax audits, which focus on independent contractors, officer compensation, and employment tax compliance;
• non-filer programs, including increased substitute for return activity; and
• audits of small businesses, in particular flow-through entities such as subchapter S corporations and partnerships.

More Manpower

No wonder the IRS is asking for more staff. The agency needs manpower to carry out the increased attacks on individuals and small businesses. The IRS’s 2012 budget proposes a 6 percent increase in full-time staff over 2010 and an 11 percent increase over its 2008 staffing levels.

If the IRS has its way, the agency will have more than 100,000 full-time employees (FTEs) in 2012, compared to 91,000 in 2008 and 95,000 in 2010. As you can see, the agency is growing, both in terms of money and manpower.

It is interesting to note that while the number of enforcement personnel is rising substantially, and has been for years, the number of employees dedicated to taxpayer assistance is at best flat or has dropped slightly. To me, this is a good measure of the IRS’s commitment to “helping” people. The IRS knows very well that a confusing tax law adds to the number of mistakes people make.

3.250 Tax Changes

In fact, we know that most of what the IRS calls non-compliance is really not non-compliance at all. Most of the so-called non-compliance is really lack of understanding of what is required. Never has this been more true than today. There have been 3,250 tax law changes in the code since 2001. (See “Ten Principles of Federal Tax Policy,” Pilla, The Heartland Institute, 2010.)

This kind of never-ending flux in the tax code breeds misunderstanding and errors. The IRS should be spending more time, energy, and resources helping people before mistakes are made. Moreover, this lack of attention to taxpayer service is at odds with the stated philosophy of Commissioner Doug Shulman in his first IRS Strategic Plan, issued in 2009.

In that plan, Shulman stated the IRS’s “first goal is to improve service to taxpayers to make voluntary compliance easier.” Shulman noted, “We need to excel at both service and enforcement to meet our mission: it isn’t an either-or proposition.”

Contrary to Shulman’s statements, it appears the IRS has indeed made a choice, and that choice appears to be in favor of enforcement. I’ve always said this is the easy way out for the IRS. It is much easier for the IRS to implore Congress to fund enforcement than it is to fund education. The results (or at least apparent results) of enforcement are immediate. But how do you measure the impact of taxpayer education initiatives?

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By Veronique de Rugy and Jason Fichtner

Q: If Congress misses the Treasury’s current stated deadline of August 2 for passing a debt-limit increase, will the United States default on its debt obligations?

A: No. If Congress does not immediately raise the debt limit, the Treasury has several financial management options, listed below. These would allow the Treasury to continue paying the government’s obligations until the end of the fiscal year—or possibly longer.

To be clear, most of the options are far from desirable. They do, however, provide a means for the Treasury to continue paying the government’s bills, allowing Congress and the administration time to negotiate a debt-limit increase that includes a plan to get the nation on a sound fiscal path:

• Prioritize Payments—The federal government is estimated to collect approximately $2.2 trillion in tax revenue in Fiscal Year 2011. Although this is not enough to cover the estimated $3.7 trillion in total FY11 spending, it would cover the $214 billion in estimated FY11 interest on the debt, thereby preventing a technical default by the U.S. government. It also would be enough to cover Social Security ($727 billion), Medicare ($572 billion), and Medicaid ($274 billion). Approximately $400 billion would remain for other priorities.

• Take Financial Steps—Among the “extraordinary actions” available to postpone breaching the debt limit, the Treasury Secretary is authorized to declare a “debt issuance suspension period,” permitting the suspension of investments in and redemption of securities held by the Civil Service Retirement and Disability Trust Fund and Federal Thrift Savings Plan. Treasury also can postpone the sale of nonmarketable debt (savings bonds, debt sold to state and local government), withdraw funds held at the Federal Reserve, and exchange Treasury securities for securities held by the Federal Financing Bank in order to use the central bank’s exemption from the debt limit. The Treasury already has begun these measures.

• Liquidate Assets—Treasury could liquidate roughly $2.4 trillion of assets to pay government bills. Among other things, the U.S. holds $113.5 billion of unrestricted cash on hand, $315.1 billion in restricted cash and other monetary assets (gold, international monetary assets, foreign currency), and hundreds of billions in TARP assets.

• Raise the Debt Limit—After exhausting all of the financial options available and selling off all of the government’s assets, unless spending is reduced approximately $1.5 trillion this year, the Treasury will eventually run out of options and a debt-limit increase will be necessary.

Q: How might markets react if Congress delays raising the debt limit? There is widespread concern that, even without an actual default on the nation’s debt, a delay in raising the debt limit could so worry investors that they would demand higher interest rates to lend money to the U.S. government.

A: Although it appears bond investors will shrug off brinksmanship in the short run, this confidence is unlikely to last if the current unsustainable level of spending continues. In fact, raising the debt limit on time but without a serious commitment to improving the nation’s fiscal path by reducing spending, would signal investors that U.S. debt is riskier than before Congress raised the debt limit.

There are several reasons for this. Key among them is the context in which this particular debt-limit debate is playing out. The United States is facing a debt-limit crisis—and the need for an eleventh increase in the debt limit in as many years—because chronic overspending has created an extreme fiscal imbalance which is projected to soon grow far worse with the explosion of entitlement costs, specifically in Medicare, Social Security, and Medicaid.

To date, there is no plan in place to seriously address this looming crisis. Thus the debt-limit increase agreement must serve also as a proxy budget plan and will be viewed as an indication of the U.S. government’s intent to get its spending and debt under control. Concern about the U.S. fiscal situation also is intensified as parallels are drawn to the paths of European Union nations already in fiscal crisis, such as Greece.

Q: What is necessary to convince markets that U.S. debt is still a safe investment?

A: Simply raising the debt limit without recognizing and correcting systemic problems would have consequences far beyond having to resort to “extraordinary measures” to meet FY11 financial obligations. To maintain investor confidence in U.S. debt and keep borrowing costs low, Congress must commit to real, significant, and enforceable steps to reduce spending to sustainable levels. These changes should begin immediately and focus on institutional reforms—as opposed to one-time cuts—that direct meaningful improvement in the nation’s fiscal trajectory.

Such institutional reforms could include limits on emergency spending, Congress has increasingly abused the emergency spending designation as a giant loophole through which it can ramp up spending without it being subject to budget rules or counting toward budget-set limits.

Congress must put an immediate end to this and other gimmicks that thwart attempts at spending control and make an accurate accounting of the nation’s current and projected fiscal status nearly impossible.
Tax Holiday Proponents Say It Will Bring Capital Back

By Matthew Glans

In order to avoid the high corporate tax rate imposed by the United States, U.S.-based companies operating internationally have been keeping their foreign earnings in subsidiaries overseas.

The United States now has the highest corporate tax rate among the 34 nations in the Organization for Economic Cooperation and Development, whose other members include Belgium, Britain, Canada, France, Germany, Japan (where the corporate tax rate was cut earlier this year), Mexico, Sweden, and Switzerland. Critics of U.S. tax policy argue this nation’s high tax rate has kept billions of dollars of capital in more tax-friendly countries.

Recently, members of Congress from both major political parties have called for a “tax holiday” on repatriated earnings similar to one that took place in 2004. During the tax holiday, multinational corporations may bring profits held overseas back to the United States and pay tax at a rate that could be as low as 5.25 percent rather than the usual 35 percent rate.

Tax holiday supporters say the lower rate would induce repatriation of earnings, boosting total tax collections during the holiday, although total foreign tax revenue likely would decline in future years.

Worries About Incentives

Tax holiday opponents argue the 2004 tax holiday failed to produce the promised benefits and should not be repeated. These critics, including the Center on Budget and Policy Priorities, also say companies that would stand to benefit the most would be the same ones that have aggressively shifted income overseas, which could cause the holiday to backfire.

In a June 2011 Center on Budget and Policy Priorities report, Chuck Marr and Brian Highsmith argued the tax holiday would in fact encourage corporations to stow capital overseas in anticipation of future tax holidays.

“Moreover,” wrote Marr and Highsmith, “a new tax holiday would increase budget deficits by tens of billions of dollars over the coming decade. And unlike the 2004 repatriation holiday, which was sold as a ‘one-time-only’ event, a second holiday would send a powerful message to corporations to shift investment and jobs overseas and hold the profits there—until yet another tax holiday is declared.

“Indeed, enactment of another such tax holiday would further embed the shifting of investment, jobs, and profits overseas as a major tax avoidance strategy for many U.S. multinational corporations,” they added.

Not Tax Avoidance

Supporters of the repatriation tax holiday say it could inject up to $1 trillion into the U.S. economy at no cost to taxpayers. The Tax Foundation also calls “dishonest” the claim that U.S. multinational companies are keeping money abroad to “avoid paying taxes”—they’re just paying those taxes to foreign governments where the rates are lower.

According to the Tax Foundation, “IRS data for 2007—the most recent available—shows that U.S. companies paid nearly $100 billion in income taxes to foreign governments on taxable income of $392 billion.”

Tax Foundation President Scott A. Hodge says he prefers wider and permanent changes in corporate income taxes instead of a temporary tax holiday. But he says a tax holiday would address serious problems with the U.S. corporate tax rate.

“The motivations of those who support the repatriation holiday are correct: The high U.S. corporate tax rate and our worldwide tax system have erected an economic Berlin Wall around the country, discouraging companies from reinvesting their foreign earnings back home. For most companies, the 35 percent toll charge for bringing that money home is too stiff,” Hodge wrote on the foundation’s Tax Policy Blog.

“What is also very troubling about this debate is the deceptive language used by critics of deferral and the repatriation holiday (this includes President Obama) that such policies allow companies to ‘avoid paying taxes’ on that income,” wrote Hodge. “They know this is misleading and should be called out on it.”

Disappointment in 2004

The response to the repatriation tax holiday has been mixed in Washington government circles. Treasury Department officials have questioned the ability of a repatriation tax holiday to boost the economy. Emily McMahon, acting assistant secretary of tax policy, wrote in a letter to North Carolina Gov. Bev Perdue (D) that the 2004 tax holiday did not achieve its intended goal of boosting the economy. Perdue has said she supports a tax holiday.

“In 2004, when Congress enacted a repatriation tax holiday, the goal was to encourage U.S. multinationals to repatriate funds from their overseas subsidiaries and use the cash to make investments in the United States,” McMahon wrote. “That tax holiday cost taxpayers billions of dollars, but unfortunately, there is no evidence that it increased U.S. investment or jobs.”

In comments made at The Wall Street Journal’s CFO Network annual meeting in Washington, DC, House Ways and Means Committee Chairman Dave Camp (R-MI) supported repatriation but argued a temporary tax holiday may not be the best long-term solution.

“I’m for repatriation,” Camp said at the meeting. “Some estimate well over a trillion dollars are stranded overseas. If it doesn’t get here it gets invested there.”

Camp concluded a temporary tax holiday would likely need to be repeated.

“We did repatriation a few years ago, and here we are with the same problem,” said Camp.

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Ohio’s Tax Reforms Include Burying the Estate Tax

Continued from page 1

“We’ve tried in this budget to make the best of a very difficult economic environment,” said state Sen. Chris Widener (R-Springfield), chairman of the Senate Finance Committee. “We simply don’t have the resources to sustain an endless growth in government spending, so we had to make choices about our priorities.

“This budget directs the limited resources we have to those in need and to Ohio’s schools and local communities. We’ve also taken steps to help families keep more of their hard-earned money through responsible tax relief,” Widener said.

Local Officials Express Anger

Ohio’s estate tax, which has been in effect in one form or another since 1893, has two rates: 6 percent for estates between $338,000 and $500,000, and 7 percent for estates worth more than $500,000. According to the Ohio Department of Taxation, the estate tax brought in nearly $334 million in 2009. Of that amount, 20 percent went into state coffers. The remaining 80 percent was directed to local governments.

Abolishing the estate tax has been met with anger from local officials who say losing that revenue source will force them to cut services. Kasich said local governments need to learn to do with less.

“There isn’t a local government I know of in this state that can’t be far more efficient. They need to change the way they do business,” Kasich said.

Farmers Welcome Repeal

News of the estate tax repeal was welcomed by the Ohio farming community, which has traditionally been hit hard when farmers leave their farms to their families when they die.

“The American dream includes working hard, investing wisely, and spending sensibly so that we can pass on something to our children,” said Jack Fisher, executive vice president of the Ohio Farm Bureau Federation. “Our homes, farms, businesses, and other assets have already been taxed, which is why the farm bureau felt taxing them again upon the owner’s death was extremely unfair.”

Dick Patten, president of the American Family Business Institute, said, “By repealing this suffocating tax, Gov. Kasich and the Ohio legislature have made our state stronger and made it a model for the remaining 21 other states that continue to impose state estate or inheritance taxes, including three of Ohio’s neighbors: Indiana, Kentucky, and Pennsylvania.”

Maine Rolls Back Tax

Ohio isn’t the only state that is taking on the death tax. In a budget signed in June, Maine Gov. Paul LePage (R) doubled the exemption from $1 million to $2 million, effective January 1, 2013.

According to Maine Department of Revenue Services estimates, this means in 2013 approximately 150 to 175 estates will be exempt from the tax because of the higher threshold.

LePage said in a statement, “While this move is a step in the right direction, unfortunately it falls short of full repeal that is needed to lighten the heavy tax burden on Maine’s small businesses.”

Lawmakers in Oregon and North Carolina recently rejected proposals to increase their estate taxes.

‘Government Has to Cut’

In Ohio, local officials are coming to terms with the prospect of less taxpayer money flowing their way. Oregon City, a suburb of Toledo with a population of more than 20,000 residents, stands to lose $1 million over the next three years.

Oregon City Administrator Mike Bea zley said, “Our families have had to cut back, our businesses have had to cut back, and government has to cut back.”

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— ED FLYNN, host of “Talk of the Town” radio program

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Why is it that some states prosper while many others continue to struggle economically?

The latest edition of the American Legislative Exchange Council’s *Rich States, Poor States* incorporates data from the 2010 Census and many other respected sources to explain why some states have enjoyed population, income, and job growth over the past decade while others suffered economic malaise.

Through statistical and anecdotal evidence, *Rich States, Poor States* (coauthored by this writer) makes a compelling case that pro-growth fiscal policy is what really makes the difference.

“The data and analysis from ALEC on state economic conditions is a powerful resource for policymakers who care about reducing spending so they can begin reducing taxes,” said Ohio Gov. John Kasich (R). “It’s both a report card and a scoreboard. Frankly, Ohio’s not doing as well as it needs to do. The information that ALEC provides helps us understand our competitive position and helps spur us to do better.”

No state has ever taxed, borrowed, or spent its way to prosperity. The ALEC study shows states that allow government to interfere heavily in economic transactions through increased tax rates, burdensome regulations, and bloated spending have lost economic vitality and have seen residents migrate to states with lower taxes and more competitive business climates.

“The Great Recession has taken a correspondingly great toll on state budgets. Yet, states that have put in place the strongest pro-growth economic policies have been able to weather the storm much better than states with the highest taxes, highest government spending, and most burdensome regulation,” said Tennessee Gov. Bill Haslam (R). “Year after year Rich States, Poor States puts forth compelling new anecdotes, data, and theories to back up the common-sense economic policies Tennessee continues to count on for long-term economic growth.”

**Roadmap to Revitalization**

*Rich States, Poor States* is more than an engaging economic study. The report also offers policymakers a valuable roadmap to revitalizing their state economy through fiscal reform, based on free-market, limited government principles. The book compiles numerous case studies on the success of pro-growth economic and tax policies. The authors offer solutions on how to tackle budget deficits without raising taxes, what to do about unfunded state pension systems, and how to encourage creation of new businesses and private-sector jobs.

In addition, the fourth edition of *Rich States, Poor States* contains the much-anticipated 2011 ALEC-Laffer State Economic Competitiveness Index. It analyzes the real effects of current policies within each state and ranks the states according to their economic growth.

**Economic, Competitiveness Rankings**

The publication outlines two sets of state rankings:

- An economic performance ranking is based on the past 10 years of economic data and takes into consideration income, population, and job growth.
- An economic outlook ranking uses 15 policy variables, including various tax burdens, recently legislated tax changes, regulatory burdens, and labor policy.

Policymakers may examine how their state ranks in this year’s edition, as well as how their economic policies compare to the rest of the nation.

One beauty of the American experiment is that we have 50 “laboratories of democracy” that we can study to replicate the policies that have worked and avoid those that have failed. *Rich States, Poor States* is an indispensable 50-state resource for legislators tasked with guiding their states through these tumultuous economic times. With reliable facts and detailed analysis, this publication is a tool that gives lawmakers in each and every state realistic suggestions to improve their state’s economic outlook.

“One major lesson from my years in corporate America is that where you do business really makes a difference. The best state governments realize that their citizens are making those calculations all the time. *Rich States, Poor States* is a great tool for those lawmakers intent upon increasing state economic competitiveness and prosperity,” said Florida Gov. Rick Scott (R).

Jonathan Williams ([jwilliams@alec.org](mailto:jwilliams@alec.org)) is a coauthor of *Rich States, Poor States* and Tax and Fiscal Policy Task Force director at the American Legislative Exchange Council.
By Alyssa Carducci

Legislators in the U.S. House of Representatives have introduced a bill that would prohibit states from imposing taxes on any multichannel television providers that exceed the tax rates paid by companies offering similar services but employing different technologies.

Introduced by Rep. James Sensenbrenner (R-WI) this past May, the State Video Fairness Act of 2011 defines a tax as “discriminatory if the net tax imposed on one means of providing multichannel video service is higher than the net tax rate imposed on another.”

Although praised by dish satellite networks, the bill prompted an outcry from cable companies that currently pay far higher state sales taxes in addition to fees for pole attachments, easement rights-of-way, and local franchising licenses than satellite companies.

Most cable providers pay 5 percent local franchise fees, a tax from which direct broadcast satellite (DBS) companies received an exemption as a provision in the 1996 Telecommunications Act because DBS system don’t use public rights-of-way. Additionally, a wide disparity exists in state sales taxes paid by terrestrial and satellite providers. In California, for example, cable companies pay up to 17.34 percent in state taxes, while DBS pays nothing—prompting concerns states will equalize DBS and cable taxes without localities rescinding franchise fees.

Localities use franchise fees as a way of taxing their citizens in a non-transparent way, just as they do with telephone and electric bills, said Carl Gipson, director of technology and telecommunications at the Washington Policy Center.

Gipson says reining in discriminatory taxes on multichannel video services is a good idea, but he maintains the bill falls short of this goal because states could increase taxes on DBS to attain parity with those paid by cable companies.

“My only concern is that taxes would be raised in order to level the playing field that policymakers so often talk about. I would rather see a broader base, which would result in a lower overall rate as well as remain revenue-neutral,” Gipson said.

Louisiana Joins North Dakota in Backing Debt Relief Amendment

By Fergus Hodgson

Louisiana state Rep. Noble Ellington’s (R-Winnsboro) resolution for an anti-debt amendment to the U.S. Constitution has won approval from the state’s lawmakers.

The final vote in the state Senate was 24 for and seven against, following the House’s overwhelming 73-0 approval. The resolution had been on the ropes in June under stiff opposition and was deferred in its Senate committee hearing.

In a surprise move on June 19, the Senate Governmental Affairs Committee reexamined the resolution and chose to report it favorably for the Senate vote.

No Signature Needed

As a resolution, it does not require the governor’s signature, so Louisiana is now the second state, after North Dakota, to support the proposed National Debt Relief Amendment (NDRA). It reads:

“An increase in the federal debt requires approval from a majority of the legislatures of the separate States.”

The chief sponsor of North Dakota’s resolution, state Sen. Curtis Olafson (R-Edinburg), has twice made the trek to Louisiana to testify as the initiative’s national spokesman. He praised Ellington’s work and gave him credit for the turnaround, calling him a highly skilled legislator.

Provides Momentum

Olafson says Louisiana’s passage of the resolution provides great momentum and a stepping-stone for other states. He has identified Michigan and Pennsylvania as the most likely next prospects. Thirty-two additional states will have to sign on to trigger the amendment convention. Following the convention, three-quarters (38) of the states would need to ratify the amendment for it to go into force.

The American Legislative Exchange Council has made the NDRA model legislation, so Olafson and Restoring-Freedom.Org, which drafted the NDRA, agreed to promote the initiative at ALEC’s annual meeting in New Orleans from August 3 to 6.

Glenn Hughes, chairman of Restoring-Freedom.Org, says the NDRA offers an external check on Washington’s cashflow and that “Louisiana’s passage sets the stage for broader acceptance at the upcoming ALEC convention.”

Fergus Hodgson (fhodgson@pelicaninstitute.org) is the Capitol bureau reporter of the Pelican Institute for Public Policy and editor of The Pelican Post.
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