Lax Accounting Rules
Chicago and other financially troubled municipalities have accumulated massive debts outside of the official financial statements, enabled by government accounting standards that leave retirement benefit promises out of the equation.

SeaTac Proposition
It took three weeks of ballot-counting before the people of SeaTac, Washington learned voters there had approved a new minimum wage of $15 an hour.

Food Truck Fight
Food trucks are a growing part of the cuisine scene in Michigan and nationwide, but should the government be picking winners and losers among truck owners? A program from the Michigan Economic Development Corp. does just that.

Financial Transactions Tax
Another government threat to the financial industry is on its way: the proposed financial transactions tax. Bills to impose a tax on financial transactions have been introduced in committee in both the U.S. Senate and the House.

Obamacare Tax Hikes
As millions of families face cancellation of their health insurance plans due to Obamacare, many will be subject to higher-than-anticipated out-of-pocket medical costs. IRS data indicate 10 million middle-income families with high medical expenses would find themselves paying higher taxes because of the so-called Obamacare High Medical Bills Tax.

Colorado Voters Overwhelmingly Reject Schools Tax Increase
"Passing Amendment 66 would have gravely wounded the state’s economy and business climate, while rewarding a reform-resistant education system with an unearned windfall."

By Steve Stanek
After a two-day special session, Washington State lawmakers in November approved approximately $8.7 billion in incentives for The Boeing Company to build the 777X jetliner in the state.

Boeing’s 31,000 members of the International Association of Machinists and Aerospace Workers followed that vote a few days later by rejecting, by a 2-to-1 margin, an eight-year contract offer, putting the future of the 777X in Washington in doubt.

"No one’s sure what’s going to happen now," said Erin Shannon, director of the small business center at the Washington Policy Center. "Is it important to keep Boeing here? Certainly. But these incentives and unjustified tax grab," said Dustin Zvonek, the Colorado state director for Americans For Prosperity, in a statement. "Passing Amendment 66 would have gravely wounded the state’s economy and business climate, while rewarding a reform-resistant education system with an unearned windfall."

He added, "Hopefully the governor and other leading liberals..."
U.S. Hands Boeing Billions; Union Hands Back Contract

Continued from page 1

tives are a double-edged sword for us. The fact that we have to give Boeing special breaks to get them to do business here, what does that tell you about our business climate?

“And now with the machinists rejecting Boeing’s contract offer, who knows what will happen?” she said.

Largest Incentive Package on Record

Gov. Jay Inslee (D) was jubilant after lawmakers approved the huge Boeing incentives package, believed to be the largest for one business in U.S. history.

“This is a great day for everyone in Washington,” Inslee said in a statement. “Winning the 777X will secure tens of thousands of jobs and yield huge economic benefits for generations to come. And it will bolster our state’s legacy as the aerospace capital of the world.”

Among other things, according to the governor’s office, the incentives package will:

• Extend all commercial airplane tax incentives until 2040 and expand the current sales and use tax exemption on construction of buildings to manufacture “superefficient airplanes” to include all commercial airplanes and suppliers of wings and fuselages.
• Expand the state’s investment in education and workforce development to boost enrollment in aerospace fields at community and technical colleges, train workers for manufacturing of composite wings, and complete the Central Sound Aerospace Training Facility in Renton.
• Streamline permitting actions that will speed up development and expansion of facilities at large manufacturing sites around the state.

No More Contract Offers

Boeing officials publicly declared before the vote that this was the company’s last offer. Boeing several years ago moved its corporate headquarters to Chicago and four years ago opened a production line for its 787 jetliner in non-union South Carolina.

With the union having soundly rejected the offer, it’s possible production of the 777X could leave Washington even with the incentives package as enticement to stay. Boeing officials have said they will announce where they plan to build the jetliner by early 2014.

“It is my belief that we represent the best aerospace workforce in the world and hope that as a result of this vote Boeing will not discard our skills when looking to place the 777X,” said Tom Wrobleski, the union’s directing business representative, in a statement.

“We preserved something sacred by rejecting the Boeing proposal. We’ve held on to our pensions and that’s big. At a time when financial planners are talking about a ‘retirement crisis’ in America, we have preserved a tool that will help our members retire with more comfort and dignity.”

Shannon said, “I don’t know if the machinists are delusional or simply believe Boeing has nowhere else to go. Boeing was clear this was a one-shot deal.”

‘Emotional’ Rather than Economic

Seattle Times columnist Bruce Ramsey has closely followed the story and wrote of the union members:

“Their friends in the media called Boeing’s terms ‘a race to the bottom.’ It was a silly phrase. There were take-backs, but the top pay ($33 to $43 per hour in various grades) was not cut, and it continued to be protected from inflation—unlike most private-sector pay. Workers would have investment risk on their retirement, but most American workers have had to accept that. Boeing offered to fund the Machinists’ retirement savings with essentially a 10 percent match, and in the first few years even more. ‘These are not workers within a light-year of the bottom.’

“Their decision to say no to Boeing’s offer cannot be explained by economics. It was emotional.”

Shannon said there is another reason Boeing might want to move production out of state:

“Earlier this year Boeing said there are two big issues: workers compensation insurance and water quality standards. Washington is contemplating the most restrictive clean water standards in the nation. Boeing’s been very vocal on this. [The standards are] so restrictive they currently cannot be met, and there is no technology to measure those standards or ensure they’re met.

“And workers comp reform played no part in the special session,” she noted.

Steve Stanek (sstanek@heartland.org) is a research fellow at The Heartland Institute and managing editor of two Heartland publications, Budget & Tax News and FIRE Policy News.
Colo. Voters Overwhelmingly Reject Schools Tax Increase

Continued from page 1

will take this as a clear message that Coloradans aren’t ready to see this great state Californianized. The debate over Amendment 66 erased any doubt that we have a typical tax-and-spend liberal in Gov. John Hickenlooper.”

Rejection of Progressive Taxation

Amendment 66 would have changed Colorado’s flat-rate income tax of 4.63 percent to a “progressive” two-tier system: 5 percent on the first $75,000 of income (an 8 percent rate increase) and a 5.9 percent tax on income above $75,000 (a 27 percent rate increase). Officials estimated the tax increase would have taken nearly $1 billion a year more from residents, making it the largest tax increase in Colorado history.

The initiative’s backers included some of the nation’s wealthiest individuals and politicians. Billionaire Microsoft founder Bill Gates put $1 million into the Amendment 66 campaign, and New York’s outgoing mayor and billionaire news media mogul, Michael Bloomberg, threw in another $1 million. Supporters of the failed measure outspent opponents more than 10 to 1.

Unforeseen Landslide Loss

“Selling a billion-dollar tax increase in Colorado was a tough task, but very few saw this kind of landslide coming,” said Ben DeGrow, senior education policy analyst at the Colorado-based Independence Institute.

“Ten million dollars bought a lot of promises for education that supporters couldn’t keep, and some suburban voters undoubtedly were concerned that many of their tax dollars wouldn’t return to their local schools and classrooms,” DeGrow said. “The fact that the tax increase went down in flames also shows that Colorado voters understand the importance of TABOR [Taxpayers Bill of Rights] spending limits, and that peeling back constraints on the growth of government spending ultimately wasn’t good for the state’s children.”

DeGrow said the sound defeat of Amendment 66 gives people in Colorado a chance to start a serious conversation about real education reform.

“That means curbing the power of unions and bureaucrats, giving families more quality options, and raising expectations rather than raising taxes,” he said.

Redistribution Scheme’s Demise

Earlier this year Colorado legislators passed and the governor signed Senate Bill 213, which would have raised annual state spending on K-12 schools from about $3 billion to $4 billion, imposed full-day kindergarten, and implemented other changes in the public school system. But SB 213 needed approval of Amendment 66 for implementation.

Opponents argued SB 213 would have gutted local control of school districts and taken money from some school districts and sent it to other school districts, depending on their relative wealth. They also said it was little more than a sop to the entrenched government teachers unions. Much of the additional money would have gone to teacher pensions, teacher and other staff hiring, and pay raises to existing staff.

Among the opponents was Penn Pfiffner, chairman of Kids Before Unions. In an interview with Americans for Limited Government, Pfiffner said, “The voters saw through this very extreme and unwise measure,” and added, “Clearly, Colorado voters took a very commonsense approach toward balancing government funding and family budgets.”

DeGrow said the Amendment 66 vote probably helped pro-reform school board candidates win in two of Colorado’s largest school districts: Douglas County and Jefferson County.

“Many fiscally conservative voters turned out in an off-year election to kill a large income tax hike and to support candidates who want to put kids before established interest groups.”

BEN DEGROW, SENIOR EDUCATION POLICY ANALYST
INDEPENDENCE INSTITUTE

Many fiscally conservative voters turned out in an off-year election to kill a large income tax hike and to support candidates who want to put kids before established interest groups.”
Legislators:

Make Us Your New Legislative Aide!

Join Heartland’s Legislative Forum today and stay on top of the latest research and policy solutions.

Why Join?
Simply, The Heartland Institute delivers what elected officials need. Busy elected officials have little or no staff and need a reliable source of research and commentary on the most important public policy issues of the day. For 30 years Heartland has been that resource.

Benefits of membership include:
• Travel Scholarships to Heartland’s Emerging Issues Forum
• Priority access to your very own free-market “think tank”
• Bringing experts to your state
• Invitations to Legislative Forum member-only events
• Complimentary copies of Heartland Policy Studies and books

Membership is limited to current elected officials and costs just $99 for two years or $179 for a lifetime membership. As a lifetime member, you will enjoy the great benefits the Legislative Forum offers for your entire time in office, as well as alumni benefits thereafter.

Visit heartland.org/sign-forum to sign up.

For more information, please contact Robin Knox at 312/377-4000 or email her at rknox@heartland.org.

“In a country whose political dialogue has been clouded with the lack of transparency created by conventional political thinking Heartland throws open the door to fresh and creative thought and discussion.”

HON. JEFF ESSMAN
STATE SENATOR
MONTANA
Chicago Mayor Rahm Emanuel’s proposal to give Chicago the highest cigarette tax in the nation won overwhelming approval from the Chicago City Council on November 26.

The decision could drive some shoppers out of the city and fuel the smuggling of cigarettes across state borders to sell on the black market, says Tanya Triche, vice president and general counsel of the Illinois Retail Merchants Association.

Emanuel originally proposed to increase the city’s cigarette tax 75 cents per pack but settled for 50 cents, raising the city’s portion of the cigarette tax to $1.18 per pack. The overall tax on a pack of cigarettes in Chicago will rise to $7.17 when county, state, and federal taxes are included. That’s 31 cents more tax than in New York City, which will now have the second-highest total cigarette tax burden in the nation.

“It makes the lure of the black market more enticing for them,” says Triche of high cigarette taxes and people who buy cigarettes where taxes are lower and then bring them to Chicago to illegally sell. “It’s an easy gig for criminal enterprise. They fuel that market, that demand.”

Poorest Hit Hardest

An increase in crime is not the only concern. The tax increase will heavily impact neighborhood convenience stores and put a squeeze on residents of Chicago, she says. Hardest hit will be lower-income residents. Many studies show people with low incomes smoke at higher rates than persons with high incomes. Those with low incomes might not have the means to drive outside city limits where cigarettes are less expensive.

The city’s 2014 budget anticipates about $7 million from the tax hike.

Triche says she doubts the city will bring in that much additional revenue because many smokers will try to buy their cigarettes outside the city or from smugglers. Furthermore, she notes, Chicago’s revenue from cigarettes has declined since the city last raised the cigarette tax in 2006. The state and Cook County governments also have raised cigarette taxes since 2006, driving some smokers out of the city and the county and to nearby Indiana to do their shopping.

“The city just loses revenue and people just end up paying higher taxes,” Triche said. “You want to give incentives to people to stay in the city to buy things. It’s no wonder why people are going elsewhere. It’s a major cost savings.”

Retailers, Tax Base Both Suffer

Jeff Lenard, spokesman for the National Association of Convenience Stores, called the proposal “not well thought out.”

“The first thing that happens is people seek out a lower-tax and no-tax alternative. People are very price-sensitive when it comes to cigarettes. People will just drive across the border. The [local] retailers suffer and so does the tax base,” he said.

“They say it’s to reduce smoking and increase revenue. You can’t increase revenues if your user base is decreasing. It’s great news for anyone who anticipates a thriving black market. We saw it in New York City. Cigarettes were being sold out of the trunks of cabs, out of duffle bags, in dark places. … They were not remitting taxes to the city, to the state. There is no age verification.”

Triche says tobacco products typically make up 40 percent of convenience store sales. And those sales help drive sales of other products.

“There’s going to be a significant impact on convenience stores,” she said, because fewer tobacco sales could lead to fewer sales of groceries, gasoline, and other items.

From 555 to 20 in Stock

Navin Seni, owner of PK’s Pantry in the nearby Chicago suburb of Elmhurst, says the tax increase probably won’t affect his sales much because they already have been so hard hit. Even though his store is west of the Chicago city limits and would avoid the tax increase, it’s still in high-tax Cook County.

“It doesn’t matter to us. They’re $10 per pack. We have about 20 cartons in stock. Before, we would have a $9.99 three-pack special. Then, we had 555 cartons in stock. It ruins businesses,” Soni said of rising taxes. “[Shoppers] drive 10 minutes farther to DuPage County or Lake County and get them cheaper. It’s a $30 difference. Who would want to buy here? They drive farther, buy other things, fill up with gas where gas is cheaper.”

Customers Say it’s Ridiculous

In neighboring DuPage County, Joyce Zetsher, a cashier at York Cigarette Center in Elmhurst, says the cash register could ring even more with Chicago’s tax increase. At her store, a pack of smokes is $6.50 for some brands.

“I’ve got a lot of customers who tell me it’s getting ridiculous in Chicago. You’re only spending a little more in gas and we’re right off the highway. … I wouldn’t buy [cigarettes] in Cook County,” said Zetsher.

“Regardless of how you feel about smoking, whether you are for it or not, these are taxes that people are paying. They say [the tax increase] will desensitize people from smoking, but we’ve seen year after year smokers decide to buy their cigarettes somewhere else,” said Triche.

Carolyn Rusin (ejrusin@aol.com) writes from Chicago.
$15 Minimum Wage at Seattle-Tacoma Squeaks to Victory

By Bailey Pritchett

It took three weeks of ballot-counting before the people of SeaTac, Washington learned voters there had approved a new minimum wage of $15 an hour. SeaTac Proposition 1 received 3,040 votes in favor versus 2,963 against to win by a 77-vote margin.

Proposition 1 raises the minimum wage for workers at SeaTac (Seattle-Tacoma) International Airport and nearby airport-related businesses such as hotels and rental car companies, giving them the highest minimum wage in the nation. The City of SeaTac surrounds the airport.

On the evening of the November 5 election, Proposition 1 was ahead by eight percentage points. But nearly every day since election night, the lead narrowed as mailed-in ballots continued to be counted. At one point the measure was ahead by only 19 votes.

Opponents of the measure have declared their intention to demand a hand recount of all ballots.

“When an election is this close, everyone should be assured the outcome is as certain as possible,” said Scott Ostrander, co-chairman of the Proposition 1 opposition group, CommonSense SeaTac, in a statement. “If there’s one thing we learned from the 2004 recounts of the [Washington State] governor’s race, counting ballots has a margin of error like any other human endeavor.” (In 2004, Democrat Christine Gregoire was declared governor on the third recount.)

Washington State has the nation’s highest minimum wage of $9.19 an hour. With Proposition 1’s victory, SeaTac’s travel and hospitality industry employees will have a minimum wage more than twice the national average of $7.25 an hour.

More than Wages

The proposal had heavy labor union backing and requires more than a high minimum wage. It also provides for up to 6.5 paid sick leave days annually and requires airlines to offer their current half-time employees any available full-time positions before filing those positions. Proponents of the initiative claim the higher pay and perks will put money into the SeaTac economy.

“Economists say this will put additional money into SeaTac,” Heather Weiner, spokesperson for “Yes! for SeaTac,” said. “It increases wages and increases spending power.”

Puget Sound Sage, a think tank in Seattle hired by Yes! for SeaTac to produce research and commentary on behalf of the initiative, claims $54 million will be added to the economy with the record-high minimum wage.

Maxford Nelsen, a labor policy for the Evergreen Freedom Foundation, says that analysis is flawed.

“Nobody seems to understand that paying higher wages is coming from businesses,” Nelsen said. “[Prop.1] is not generating new money, it’s just rearranged.”

Nelsen says the new minimum wage will inject half of what its supporters claim into the town’s economy.

Pro-Union Coercion

The ballot measure requires that non-unionized businesses comply with all provisions of Proposition 1. But if businesses are unionized, they may negotiate with the union for less-stringent contract requirements. For example, a unionized business could negotiate a minimum wage of $13 an hour rather than $15 an hour.

Nelsen said this marks an unprecedented level of union coercion on businesses both big and small.

“Should it pass, SeaTac’s Proposition 1 would impose one of the strictest employment regulation regimes in the nation,” Nelsen said shortly before the election’s outcome was declared. “Overnight, businesses would have to comply with a $15 minimum wage requirement, a mandatory paid sick leave mandate, restrictions on part-time hiring, increased record keeping obligations, and added legal liability.”

According to the Public Disclosure Commission, unions outspent opponents of the measure by a 2 to 1 margin. Nelsen said his numbers show unions contributed 94 percent of the $1.3 million donated to the Yes! for SeaTac PAC. The Service Employees International Union sent 77 percent of money, amounting to more than $1 million.

“Labor unions are the only group which benefits from Prop 1,” Nelsen said. “Because the law exempts unionized businesses, non-union businesses face significant incentives to unionize. Furthermore, by [the law] mandating employers provide so much, unions come to the bargaining table in a much stronger position.”

Higher Minimum in New Jersey

 Voters in New Jersey on November 5 also voted for a minimum wage increase, from $7.25 to $8.25 an hour. In 2012, Gov. Chris Christie (R) vetoed a bill that would have raised the minimum wage to $8.50 an hour.

In addition to imposing a higher minimum wage, Public Question 2 also includes an automatic cost-of-living increase every year, making New Jersey the tenth state to automatically adjust the minimum wage to track the cost of living.

Approximately 3 percent, or 49,000, of the New Jersey working population is paid minimum wage.

New Jersey businesses contributed $1 million to campaign against the minimum wage measure. Unions and other backers of the measure spent $1.3 million to promote it. They carried the day by a 60–40 vote. New Jersey is now the 20th state with a minimum wage higher than the national average of $7.25 an hour.

Taxpayers Thwart Worst, but Many Bad Ballot Measures Are Approved

By Lee Schalk

Despite what may have appeared to be a sleepy off-year election, a host of ballot measures with national implications appeared on November 5 state and local ballots across the country.

The results, compiled by the National Taxpayers Union, might surprise you. There were both silver linings and disappointments for taxpayers across the country.

The Good

In Colorado, a $1 billion income tax hike proposal went down in flames. Despite the $10 million spent in support of Amendment 66, Coloradans were in no mood for income tax increases, which are often a major hindrance to economic growth. The amendment secured only 34 percent of the vote in the increasingly blue Centennial State.

Telluride, Colorado taxpayers overwhelmingly rejected a penny-per-ounce soda tax, with a vote of 68–32 percent. Two similarly regressive measures were defeated in Richmond and El Monte, California in November 2012.

Texas voters approved five pro-taxpayer amendments: three that grant property tax relief, one that shrinks government by eliminating the ineffective State Medical Education Board, and one that provides consumer flexibility on homestead purchases by allowing reverse mortgage payments.

Washingtonians took down Initiative 522 (55 to 45 percent), which could have significantly disrupted commerce by requiring the labeling of genetically modified food.

Hialeah, Florida voters approved a pension reform referendum question. Future elected officials will no longer receive exorbitant pensions after leaving office, and future changes to the Hialeah pension fund must now be approved by taxpayers.

Proposition 5 was approved in Kaysville, Utah, restricting revenue of the city Power Department and Power Fund to be used only for that department. If revenues exceed operating costs for the Power Department, those extra collections must be returned to the customers. This will provide transparency by barring the local government from spending those proceeds on items unrelated to the power company.

The Bad

New Jersey voters passed a minimum wage increase that raises the hourly rate by 14 percent, from $7.25 to $8.25. In SeaTac, Washington, a ballot measure raising the local minimum wage to $15 per hour won by 77 votes; opponents intend to request a hand recount. These measures could reduce overall employment by making unskilled and young workers more expensive to hire. Additionally, businesses are likely to pass on the cost of the wage increase to consumers.

Texans said “yes” to Amendment 6 by an astounding margin, 73 to 27 percent. The Lone Star State’s Rainy Day Fund can now be tapped to provide local water projects.

A handful of California towns and cities—Corte Madera, Larkspur, San Anselmo, San Rafael, and Scotts Valley—voted to raise sales taxes.

The Ugly

Maine voters, whose state already claims the 12th-highest per-capita debt in the nation, approved five ballot questions to increase state debt by a total of $149.5 million.

Proposal 1 passed easily in New York (57 to 43 percent), permitting localities to exceed debt limits when constructing or reconstructing sewage facilities. Evidently, fiscal responsibility remains a foreign concept to many in the Empire State, which ranks number one in local-level per-capita debt among the 50 states.

An attempt to strengthen the initiative and referendum process, Initiative 517, was beaten badly in Washington, 60 to 40 percent. The initiative sought to extend signature collection time, ensure that measures with sufficient signatures appear on the ballot, and set penalties for harassing petition organizers.

Modest pension reform was rejected in Cincinnati, as 78 percent of voters rejected Issue 4. Shortly before the vote, former mayor Ken Blackwell warned Cincinnati must face the pension crisis that sealed Detroit’s fate.

The results of Colorado’s marijuana tax hike measures could be considered good, bad, or ugly, depending on your point of view. While Coloradans rejected the Amendment 66 income tax hike, they approved the Proposition AA marijuana taxes by a 65–35 vote. Locally, voters in Eagle, Red Cliff, Littleton, Boulder, and Denver passed new taxes on marijuana. All of these measures increase taxes on a product recently deemed legal under state law.

Lee Schalk (lschalk@ntu.org) is state affairs manager at the National Taxpayers Union.

Don’t just wonder about global warming. Understand it.

The Nongovernmental International Panel on Climate Change (NIPCC), started in 2003 by Dr. S. Fred Singer, one of the world’s most distinguished climate scientists, concludes that global warming is not a crisis.

Climate Change Reconsidered II — Physical Science is a comprehensive and authoritative critique of the alarmist reports of the United Nations IPCC. Previous volumes in the series have been called “essential reading” [Tom Harris, International Climate Science Coalition], “a must-have for serious climate scientists” [Anthony R. Lupo, University of Missouri-Columbia], and “highly recommended!” [William Mekberg, author, Moon Missions].

Climate Change Reconsidered II is available for free online at climatechangereconsidered.org.

Order online direct from the publisher or go to Amazon.com, or call 312/377-4000.

“an extraordinary achievement”
Paul Driessen, J.D.

“like showing a cross to a vampire”
Peter Ferrara, forbes.com

This new 1,000-page report is available for free at ClimateChangeReconsidered.org.
Poor Government Accounting Standards Responsible for Soaring Municipal Debt

By Bill Bergman

Do you think your household budget is balanced if you spend more than you earn by using credit card debt? If you do, then you think like the City of Chicago’s government leaders.

Each year the City of Chicago releases its annual budget. City leaders regularly claim they operate under a balanced budget requirement, and they cite state law. But if state law has long required the City of Chicago to maintain a balanced budget, why has the city’s debt risen dramatically?

A clue lies in the city’s government leaders choosing to include borrowed money to “balance” the city’s budget. But what’s happening behind the scenes is even more important. Chicago and other financially troubled municipalities have accumulated massive debts outside of the official financial statements, enabled by government accounting standards that leave retirement benefit promises out of the equation.

This was the gist of the message delivered in October in a seminar held at CivicLab in Chicago’s West Loop. The seminar was led by Sheila Weinberg, CEO and founder of the Institute for Truth in Accounting, a nonprofit organization dedicated to promoting truthful, transparent, and timely government financial reporting.

Real Debt Many Times Higher

Weinberg opened the discussion with related observations on federal government accounting, in light of the national debt ceiling debate. She asked seminar participants if they believe the government owes senior citizens the Social Security and Medicare benefits they have been promised, and whether military veterans are owed the benefits they have been promised.

All participants answered in the affirmative, leading to a basic conclusion that the “official” government debt subject to a transportable “ceiling” massively understates the real debt our federal government has taken on. The $17 trillion official national debt may sound like a lot of money, and it is, but it pales in comparison when considering that adding unreported debt leads the total to run at least $74 trillion in the red.

State and local governments, including the City of Chicago, have similar problems. A recent study of 518 Cook County taxing districts cowritten by Weinberg and John Nothdurft of The Heartland Institute, which publishes Budget & Tax News, found a combined “financial burden” of almost $34 billion once official government reports are adjusted for off-balance-sheet debt— even after considering the assets those governments have to pay their bills.

Masked by ‘Political Math’

How did Chicago residents end up in this situation, despite having leaders who regularly “balance their budgets”? Weinberg calls the main reason “political math.”

“It all depends on how you count,” she said. She described how unfunded deferred compensation can provide short-run successes in a loyal government workforce, without current costs required to be paid by taxpayers. Growing debt fills the gap, even with “balanced budgets,” as liabilities rise outside the accounting statements provided to citizens.

Weinberg painted a picture of contrast between the raucous public debate over related issues in Wisconsin in recent years and the relative calm (on the surface) in Illinois—even though unfunded liabilities in Wisconsin are “basically a rounding error” when comparing them to Illinois. Tens of thousands of government workers in Wisconsin took over the state’s capitol building in 2011 to try to block Republican Gov. Scott Walker and legislators from ending collective bargaining for pension and health insurance benefits and the forced collection of union dues. The protests failed, and the reforms were enacted.

Weinberg said Wisconsin state management has done a much better job of funding growth in real retirement liabilities with current real resources, leading to a real current impact for taxpayers. Wisconsin has cut taxes since 2011. Illinois, by contrast, has used accounting tricks and dishonest budgeting and reporting to allow the unfunded liabilities to grow even as taxes have soared.

Weinberg warned the day of reckoning is near. The sooner we get truthful accounting from government, the better the solution will be, she said.

Weinberg’s conclusion is in keeping with the mission of the CivicLab, a unique facility and nonprofit organization dedicated to civic education and engagement. Weinberg urged citizens to educate themselves and demand “FACT-based budgeting” (Full Accrual Calculations and Techniques) and truth from government and the news media.

“Chicago Again Hit with Triple-Notch Debt Downgrade

By Bill Bergman

First Moody’s Investors Service served Chicago with a triple-notch credit rating downgrade, and now Fitch Ratings Inc. has done the same.

Fitch made the announcement in November, adding its rating outlook on the city’s debt is “negative.”

“The rating firms are finally highlighting risks arising from significant costs and liabilities of government that have been hidden for years with dishonest accounting,” said Sheila Weinberg, CEO and founder of the Illinois-based Institute for Truth in Accounting.

The $17 trillion official national debt may sound like a lot of money, and it is, but it pales in comparison when considering that adding unreported debt leads the total to run at least $74 trillion in the red.”

INTERNET INFO


Bill Bergman is director of research for Truth in Accounting.
Saddled with a massive debt on what is needed to meet its pension obligations, the California State Teachers Retirement System (CalSTRS) added more than $4.0 billion to that debt in 2012 because it chose to underfund its so-called “catch-up” payment.

That is the conclusion reached by a study released in November by the California Public Policy Center. Using data from publicly disclosed financial reports—the most recent CalSTRS annual report as well as its most recent actuarial valuation and review—the study evaluated how much cash was actually contributed to the plan in 2012, including how much was contributed to pay down the unfunded liability.

During the fiscal year ended June 30, 2012, CalSTRS collected $5.8 billion from employees and employers to invest in the pension fund. Of that amount, $4.7 billion was the so-called “normal contribution,” a payment to cover the present value of future pensions earned during 2012 by actively employed participants. The other $1.1 billion was a “catch-up” payment to reduce the unfunded liability, which at the end of 2012 was estimated to be $71.0 billion.

**Seven Times Higher**

Using pension evaluation formulas and unfunded liability payback terms formally recommended by Moody’s Investor Services in April 2013, the study shows the 2012 catch-up payment should have been $7.0 billion per year, nearly seven times what was actually paid, assuming a 20-year amortization of the $5.6 billion unfunded liability and a 7.50 percent rate-of-return.

If the pension fund rate-of-return projection drops to 6.20 percent (the historical performance of U.S. equity investments, including dividends, between 1900 and 1999), the study recalculates the unfunded liability at $107.8 billion and the catch-up payment increases to $9.6 billion per year. At a rate-of-return projection of 4.81 percent (recommended by Moody’s), the unfunded liability recalculates to $154.9 billion and the catch-up payment increases to $12.2 billion per year.

**Overly Optimistic**

The study concludes CalSTRS relies on optimistic long-term earnings projections and very aggressive unfunded liability repayment schedules in order to contribute the absolute minimum each year into the pension fund.

As a result, the study estimates the officially recognized unfunded liability increased during 2012 by more than $4 billion. If CalSTRS is required to even incrementally lower its rate-of-return projections—something market conditions may eventually dictate—the funded ratio, already only 67.02 percent, will fall precipitously.

—California Public Policy Center
transactions tax was initially proposed by John Maynard Keynes in 1936 in an attempt to curb speculation, and again in 1972 by economist James Tobin, namesake of the Tobin Tax."

"We would all be better off if politicians would spend their time looking to reduce government spending as opposed to adding complexity to the tax code and disrupting business activity as they seek out new revenue sources."

Editor’s note: This is the second part of a two-part article on damaging new taxes that some federal legislators are considering imposing on investors and entrepreneurs. Part 1 can be found here: http://news.heartland.org/newspaper-article/2013/09/27/tax-bills-pose-big-threats-investors-little-gain-government.

Last month’s article discussed “carried interest” taxation. Carried interest, also known as a profits interest, is a business arrangement where a partner receives a share of the income of the business venture in exchange for providing services. Unlike other partners, carrying partners provide services and do not have to contribute capital, nor do they necessarily have to be allocated any of the losses. This is where we get the term “carried,” because the other partners who provide all of the capital for the venture are figuratively “carrying” the profits interest partner.

Here in part two the focus turns to proposals to impose taxes on financial transactions.

By Jeffrey V. McKinley

In addition to “carried interest” taxation, another tax threat to the financial industry is the proposed financial transactions tax, sometimes called a “Robin Hood” tax, the idea being that it takes from the rich.

The financial crisis and subsequent bailout of banks and brokerage and trading firms created a backlash against those companies and calls to have them “pay for the crisis they caused and the bailouts they received.” One method to accomplish this and other goals is to impose a tax on financial transactions. Bills doing this have been introduced in committee in both the U.S. Senate and the House.

Both bills are titled the Wall Street Trading and Speculators Tax Act, and both would impose a 0.03 percent excise tax on stocks, bonds, and derivatives. Proponents claim the measures are needed to raise revenue. They project revenues of $352 billion in 10 years as well as promising they would reduce the volatility of markets.

Proponents of the transactions tax claim some short-term traders harm the markets with their rapid buying and selling, primarily by increasing volatility. Even if there were some market participants who through their short-term trading disrupt the market, which is debatable, a tax would be a very blunt instrument to combat this supposedly harmful activity. Moreover, it runs the real danger of harming other beneficial market participants such as arbitrageurs who play a vital function of providing liquidity by weaving together interrelated markets worldwide.

Further, these claims of being able to reduce volatility through a transactions tax are questionable as many studies have concluded these types of taxes do not reduce volatility and in some cases end up increasing volatility.

Long History of Proposals

Financial transactions taxes have been proposed pretty much since the creation of organized trading and investing itself. The concept of a financial transactions tax was initially proposed by John Maynard Keynes in 1936 in an attempt to curb speculation, and again in 1972 by economist James Tobin, namesake of the Tobin Tax.

Tobin suggested a targeted tax on foreign currency transactions would reduce volatility in the marketplace after the 1971 closing of the gold window, which ended the convertibility of dollars into gold and resulted in floating exchange rates.

The United States has had other proposals. In 1987, House Speaker Jim Wright (D-Texas) proposed a fee of 0.25 percent to 1 percent on both the buyer and the seller in each securities transaction. In 1990, President George H.W. Bush proposed a 0.5 percent tax. In 1993, the Clinton Administration proposed a tax of a fixed amount, 14 cents, on futures transactions. And now we have the 0.03 percent tax proposed by Sen. Tom Harkin (D-Iowa) and Rep. Peter DeFazio (D-Oregon).

Financial transactions taxes also have been the preferred revenue-raiser for multiple bills to fund measures ranging from boosting employment to access to dentists to climate change mitigation.

Harmful Experience Starting in 1960s

The United States has experienced the harmful effects of transactions taxes in the past. In the 1960s, the Eurobond market was emerging with New York being the center of activity. But in 1963, the U.S. Interest Equalization Tax was passed, placing a tax that ranged from 1.05 percent to 22.5 percent on bonds depending on their maturity. Over the next seven years, Eurobond issues in London increased more than 18-fold while New York lost jobs in that sector. The tax was repealed in 1974, but it was too late for New York to reestablish the lead for the market.

In 1984, Sweden imposed taxes on securities transactions at a rate of 0.5 percent and then doubled the rate to 1 percent in 1986. The apparent impetus for the tax was popular envy of the salaries being earned by the country’s young financial professionals. The effects on the stock markets in Sweden were pronounced. Tax revenues amounted to only about one-thirtieth of the amount forecast. After the doubling of the tax rate, 60 percent of the volume of the most active 11 stocks traded in Sweden shifted to London, and fixed-income trading dropped 85 percent. The taxes were abolished in 1991, and trading volume and tax revenues rose significantly.

An October 2011 report from the CME...
Group summarized 17 studies of the effects of a transactions tax. Of those 17 reports, six examined the impact on tax revenues. Four of the six showed tax receipts below expectations, one showed tax receipts higher than expected, and one showed only temporary success generating higher tax revenues.

Ten of the studies considered the impact on liquidity, with nine of them showing lower liquidity. The tenth liquidity study was inconclusive.

Results were similar for the studies that considered volatility. Of the nine reports that studied volatility, seven showed higher volatility, one was inconclusive, and one showed no effect.

**Serious Damage to Futures Industry**

Now let’s turn our attention to the impact a financial transactions tax would have on futures trading given its special importance to the local economy of Chicago and the global economy in general.

The Chicago-based CME Group comprises 98 percent of total futures trading in the U.S. and 6 percent of total corporate tax receipts of Illinois. The 6 percent figure does not count the revenue streams from trading firms, individual traders, and businesses affiliated with trading. In short, vibrant futures trading is important in many aspects.

The current proposals for a 0.03 percent tax are particularly detrimental to futures trading. This point is lost on the proponents of the tax. This oversight is primarily due to the scoring models used to assess the potential effects on the marketplace and amount of tax revenue. These models are based on securities trading, not futures trading, and they grossly underestimate the elasticity of demand of futures markets primarily due to global competition.

Anyone familiar with the modern-day trading environment understands that access to another market in the far corners of the world is simply a mouse click away. Impose taxes on one market, and volume will switch almost instantly to markets with lower taxes.

A study conducted in 2012 to assess the impact of a tax of 0.02 percent on futures transactions predicted not just a drop in volume if the tax were implemented, but the total elimination of all volume in six U.S. futures contracts including the S&P 500. Other U.S. futures contracts would suffer large drops in volume.

**A 12,000% Tax Increase**

This is understandable, as a tax of 0.03 percent, touted as a tiny tax by some, is an increase of 12,000 percent in transaction costs for some market participants. For example, a Treasury Note contract with a notional value of $100,000 would have a tax imposed of $30. Most professional traders are paying around 25 cents for such contracts. The tax would force many firms to instantly switch almost instantly to markets with lower taxes.

A financial transactions tax, like the proposal to change the way carried interest is taxed, would be very damaging to the marketplace. At the same time, such taxes likely would not bring in the anticipated revenue or the market calmness their proponents seek.

We would all be better off if politicians would spend their time looking to reduce government spending as opposed to adding complexity to the tax code and disrupting business activity as they seek out new revenue sources.

**Why U.S. Should Emulate European Welfare State**

For years, various politicians have warned that following the public policy decisions of European countries too closely would take us down a path to becoming a European welfare state. But following the lead of one European country now would likely help the U.S. move toward a healthy, freer, growing economy.

The United Kingdom has begun aggressively reforming its corporate tax code by lowering its corporate tax from 28 percent to 24 percent. By 2015 that rate will drop to 20 percent for an overall tax rate decrease of nearly 29 percent. But the Britons didn’t stop there. They have also exempted foreign-earned profits from almost all U.K. taxes.

The result is companies are returning to the U.K., while others from all over the world are relocating to Britain. This corporate immigration wave is 80 percent larger than it was in 2009.

Meanwhile, the U.S. has taken a decidedly different approach. The 40 percent U.S. corporate tax rate, including state and local taxes on average, remains the highest in the world.

Congress cannot bring itself to lower the rate on foreign-earned profits for even a limited time, which would encourage companies to “repatriate” money from their overseas operations. Of course, there are differences of opinion about exactly what the “right kind” of tax reform would be, but if it’s designed to encourage businesses to invest and create new jobs, it has to (1) free up new capital for companies to invest and (2) give corporations a reason to repatriate their stranded overseas profits.

The U.K. is following that formula, and the results are obvious. By 2015 the country will have a corporate tax rate that is literally half of that in the United States, and their overseas profits will be free of any additional U.K. tax added to the taxes already paid in the country where the income is earned.

— Bartlett D. Cleland, Institute for Policy Innovation. Reprinted with permission.
Illinois lawmakers are determined to lower the state’s 9.2 percent unemployment rate, even if that means paying big companies to do business there. The Illinois Legislature recently gave first or final approval to three tax incentive packages:

- Archer Daniels Midland, Illinois’ agribusiness giant, asked a Senate panel for $30 million in tax breaks to move 200 jobs to a new world headquarters in Chicago. The company also would get tax breaks for adding 500 jobs over the next five years to its former home in Decatur.
- Office Depot, which has merged with Office Max, is asking for $53 million in tax incentives to possibly place its world headquarters in the Chicago suburbs. Illinois senators approved the request.
- The Illinois House rubber-stamped a $5 million tax break package to lure chemical company Univar to Illinois from Washington state.

“Everybody should be eligible for the same credit,” state Rep. Jeanne Ives (R-Wheaton) said from the floor of the Illinois House. “Instead, what we do here in Illinois is decide who is going to be a winner and who is going to be a loser in the marketplace.”

Ives said “about 10 different companies” have special tax break requests pending before the Illinois Legislature.

Lawmakers shepherding the tax incentives through the statehouse say Illinois needs the jobs.

“There’s been a lot of discussion ... about the use of tax credits and what tax credits are designed to do,” state Rep. Mike Zalewski (D-Chicago) said. “[Tax credits] are designed to be an incentive, to incentivize a company to relocate to Illinois from another state.”

Zalewski said Univar wants to move to Illinois from Redmond, Washington.

**Incentive for In-State Move**

ADM, however, wants to move its world headquarters 180 miles from Decatur to Chicago.

Office Depot has the old Office Max headquarters in Naperville, Illinois and the Office Depot headquarters in Florida. The company will simply choose one or the other.

“I don’t believe we should be doing special winners and losers, unless the state is the winner,” state Rep. Jack Franks (D-Marengo) said.

**$160 Million Lost to Incentives**

Illinois has lost $160 million to special tax breaks under Gov. Pat Quinn (D), Franks said. It has more than $7 billion in unpaid bills and, Franks said, giving away tax dollars is not going to erase those debts.

“I wish we didn’t have to do this on a piecemeal basis. I wish we could make the same fair deal for everyone across the board,” state Sen. Matt Murphy (R-Palatine) said. “But there is no getting around the fact that we have the second highest unemployment in the country.”

Murphy blames Illinois’ dismal unemployment rate on “failed policies” from the state capitol.

Benjamin Yount writes for Illinois Watchdog, where this article first appeared. Used with permission.

---

**Now Available At Amazon!**

**$2.99 Kindle Edition**

The UN has said that the United States and other developed countries must cut CO2 emissions 80% by 2050 or there will be a climate catastrophe. The EPA has adopted the UN’s 80% target.

- Is it possible to cut CO2 emissions 80%?
- What might be the impacts of an 80% cut?
- How could this impact you? Your family?

A must-read. *Carbon Gauntlet* tackles these questions head-on and identifies the issues that have the potential to significantly alter “life as we know it” in the United States!
By Jarrett Skorup

Food trucks are a growing part of the cuisine scene in Michigan and nationwide, but should the government be picking winners and losers among truck owners? A program from the Michigan Economic Development Corp. does just that.

The MEDC’s “Mobile Cuisine Startup Program” dished out $77,775 in grant money to different food truck businesses this summer. The agency selected eight winners from 65 food truck applicants statewide. The grants of up to $10,000 each were awarded to new and existing food truck businesses that “offer easily accessible and unique food options to patrons in public spaces.”

Not everyone supports the program. “The government shouldn’t give grants to promote any business,” said Mike Borschback, who co-owns the Green Zebra Truck, which operates in the Troy area. “[And] they certainly shouldn’t pick individual winners and losers. If one’s food truck is a viable business they shouldn’t need assistance from the government, and if they do need it to survive then they won’t be in operation long.”

At the same time the state is promoting food trucks, some municipalities are working to limit them.

Protectionist Regulations

In Detroit, the regulations for food trucks are byzantine, with multiple layers of approvals needed that severely limit what foods can be sold and where trucks can park.

Despite resistance from restaurants, food trucks in Grand Rapids began operating on private property in September. Previously, the city allowed only small carts with extremely prohibitive restrictions. Kalamazoo hands out only 10 licenses per year and prevents vendors from selling within 150 feet of a restaurant. East Lansing charges $1,800 per year for food truck licenses and limits them to three areas.

Before an eventual overhaul this summer, Traverse City charged $100 per day downtown, made it illegal to park for more than 10 minutes on public property, and required approval from the police chief who evaluated, among other things, the truck owner’s “moral character.”

Last year, Michigan Capitol Confidential broke the story of a 13-year-old Holland boy whose hot dog cart was shut down by the city because of an ordinance that restricts competition with brick-and-mortar restaurants. The national media picked up the story and eventually he was granted a special permit.

Nationwide Pushback

Cities all over the country have been shutting down food trucks. The Institute for Justice, a public interest law firm, has filed lawsuits representing vendors.

In Chicago, the city made it illegal to cook inside trucks and today prevents them from selling within 200 feet of restaurants. El Paso, Texas lost a case after forcing vendors to operate 1,000 feet from other businesses and preventing them from stopping to wait for customers. Atlanta tried to smother the industry by handing over all public property vending to a single company; IJ sued and won. The city of Hialeah, Florida wouldn’t allow trucks to operate within 300 feet of brick-and-mortar restaurants and prevented carts from displaying merchandise.

“Instead of putting taxpayer money up for grabs in a contest won by a select few, the state government should encourage cities to stop using public funds to enforce protectionist policies that make it difficult for food trucks to operate,” said Robert Frommer, an attorney with IJ and co-author of the report, “Food Truck Freedom: How to build better food truck laws in your city.”

Playing Favorites

“The government should not be allowed to intervene with our food trucks,” said Jeff Aquilina, who co-owns Concrete Cuisine, which operates in metro Detroit. “This country was built on free enterprise and competition. We should be allowed to compete and not have the government step in in any way that would either impede our progress or give any food truck the upper-hand, whether it be with grants or with easier access and regulations.”

Richard Myrick, editor-in-chief of Mobile Cuisine, a resource Web site for mobile vendors, said that while he doesn’t like government picking sides among different types of businesses, the MEDC program could be a good thing.

“If the program is run properly, the government really isn’t picking winners and losers,” Myrick said. “They are providing funding to small business owners that are the best investments. They will have well-thought-out concepts and business plans. I’m sure the grant money will help those who are awarded, but at the same time, there are plenty of other means for culinary entrepreneurs to get financing for their startup food trucks.”

The MEDC did not respond to a request for comment.

Improper Government Role

Borschback said the only role for government regarding businesses is “making it easier to operate and succeed” by removing red tape. For every event, his company is forced to file a new form with the county at least five days in advance, with many requiring a fax rather than a simple email.

“If the program is run properly, the government really isn’t picking winners and losers,” Myrick said. “They are providing funding to small business owners that are the best investments. They will have well-thought-out concepts and business plans. I’m sure the grant money will help those who are awarded, but at the same time, there are plenty of other means for culinary entrepreneurs to get financing for their startup food trucks.”

The MEDC did not respond to a request for comment.

IMPROPER GOVERNMENT ROLE

Borschback said the only role for government regarding businesses is “making it easier to operate and succeed” by removing red tape. For every event, his company is forced to file a new form with the county at least five days in advance, with many requiring a fax rather than a simple email.

“If the program is run properly, the government really isn’t picking winners and losers,” Myrick said. “They are providing funding to small business owners that are the best investments. They will have well-thought-out concepts and business plans. I’m sure the grant money will help those who are awarded, but at the same time, there are plenty of other means for culinary entrepreneurs to get financing for their startup food trucks.”

The MEDC did not respond to a request for comment.
Wisconsin OKs Property Tax Relief Measure

By M.D. Kittle

Assembly Democrats in Wisconsin were feeling rejected—again—after Republicans dismissed their version of property tax relief, just before the GOP’s $100 million property tax cut plan passed in the Assembly with bipartisan support.

What Assembly Minority Leader Peter Barca (D-Kenosha) didn’t point out in his news release taking aim at the Republican leadership is that the Democrats’ property tax relief plan, proposed in October, was predicated on taking tens of millions of dollars of federal taxpayer money to expand Medicaid, something Gov. Scott Walker (R) has said he will not do.

“Today Republicans refused to work in a bipartisan fashion to benefit Wisconsin’s middle class, actually lower property taxes, help seniors who want to stay in their homes, put $100 million into the rainy day fund, create thousands of health care jobs and give health care to 85,000 more of our citizens,” Barca said in a release. “Instead Republicans decided once again to choose partisan ideology over commonsense solutions for Wisconsin’s middle class.”

Thanks, but we’ve got our own plan, Assembly Republicans said, pushing forward the bill Walker laid out in October before he sent it on a special-session fast track through the Legislature’s Joint Finance Committee and easy final passage in the Senate, 82–12.

The Republican bill provides property tax relief by increasing the amount of general school aid from $40 million in the current fiscal year to $60 million in the next.

‘Cuts Key to Growth’

“Tax cuts are a key to economic growth in Wisconsin,” said state Rep. Keith Ripp (R-Lodi) in a celebratory statement. “There is no greater day for a legislator than when we get to pass legislation that allows Wisconsin families to keep more of their hard-earned dollars.”

Keith Ripp
State Representative
Lodi, Wisconsin

“There is no greater day for a legislator than when we get to pass legislation that allows Wisconsin families to keep more of their hard-earned dollars.”

‘There is no greater day for a legislator than when we get to pass legislation that allows Wisconsin families to keep more of their hard-earned dollars.’

Relief Based on Values

Under the Republican bill, the relief increases with the value of the property. In short, the Democrats give everybody the same tax cut, no matter the value and no matter the taxes they pay on their property, whereas the Republican plan provides rising relief based on property value.

The Democrats would have paid for their $218 million plan by doing what Walker has said he won’t do: Take millions from the federal government to expand the state’s Medicaid program. According to the fiscal bureau, that works out to about $26.5 million in the first year, and $92.5 million in the second year.

Democrats also wanted to increase the income eligibility for Medicaid for non-elderly, non-pregnant, childless adults and for parents and caretaker relatives of dependent children under 19. They would have used Medicaid expansion money to provide health care coverage to non-elderly childless adults with incomes up to 133 percent of the federal poverty level.

Income Determines Enrollment

Walker’s medical assistance initiative, included in the 2013–15 budget, enrolls individuals at or below the federal poverty line into the state health system and moves those at 101 percent to 200 percent of the poverty level to the Affordable Care Act, or Obamacare, program.

Democrats have ripped the Republican governor’s refusal to take some $4.4 billion in “free money” from the federal government to expand medical assistance in the Badger State, charging that, under Walker’s initiative, thousands of low-income residents will be stuck without health care coverage. Walker has countered that depending on a federal government $17 trillion in debt is not fiscally prudent, and that more Wisconsin residents will be covered under the state and federal systems.

Democrats say they would plug $100 million into the state’s reserve or rainy day fund during the next two years, too.

The robust surplus enabled the state to bolster the reserve fund by $153 million, upping the account to $280 million. That’s the highest it’s been in years, but well below the 3 percent to 5 percent cushion recommended by budget watchers.

For all his complaining, Barca ended up voting for the Republican property tax bill, joining all but 12 Assembly Democrats in doing so.

M.D. Kittle writes for Wisconsin Watchdog, where this article first appeared. Used with permission.
Illinois Supreme Court Strikes Down Internet Tax

By Steve Stanek

Efforts to tax Internet sales wherever they occur suffered a blow with a 6 to 1 ruling against Illinois “Amazon tax” by the state’s supreme court.

Illinois enacted a “click-through” nexus law in 2011 that effectively says if an Internet retailer has referral contracts with in-state affiliates, the retailer must collect Illinois sales tax on in-state sales, even if the retailer is located in another state.

Such laws originally were aimed at the nation’s largest online retailer—Amazon.com—hence the term “Amazon tax.” The Illinois law is so broadly written that all paid-per-click advertising, also called performance marketing, would result in sales taxes being owed.

“The ruling is welcome news for Illinois taxpayers and the companies that hope to do business with them. By ruling against the so-called ‘Amazon tax,’ the Illinois Supreme Court reaffirmed that the years-long campaign to extract more taxes from Internet-based businesses is unconstitutional and misguided,” said Andrew Moylan, a senior fellow and tax policy analyst at the R Street Institute in Washington, DC, about the October ruling. “Instead of targeting the Internet, states should pursue broad reforms that make their tax systems simpler and less burdensome.”

Tax Causes Huge Ad Revenue Loss

“The Illinois Supreme Court—in this ruling, at least—are heroes of common sense, the U.S. Constitution’s Commerce Clause, and overly taxed businesses,” said Bruce Walker, a policy advisor on technology and telecom issues for The Heartland Institute, which publishes Budget & Tax News.

Walker said the tax was “a classic example of governments seeking to kill the goose that lays the golden egg—in this instance Illinois’ gluttonous appetite for revenues at the expense of Performance Marketing Association affiliates conducting business in the state. An estimated 9,000 affiliates generated $744 million in advertising revenue prior to enactment of the statute in 2010. After the law took effect, affiliates’ revenues fell by more than $550 million.”

The Performance Marketing Association brought the lawsuit.

Court Focuses on Disparities

In its ruling, the court noted an Internet affiliate “does not receive or transmit customer orders, process customer payments, deliver purchased products, or provide presale or post-sale customer services. Further, an Internet affiliate displaying a link on its website does not know the identity of Internet users who click on the link, and after a user connects to the retailer’s website, the affiliate has no further involvement with the user. It is clear, therefore, that there is no interaction between an affiliate and a customer, and no ‘active’ solicitation occurs on the part of the Internet affiliate. The click-through link makes it easier for the customer to reach the out-of-state retailer, but the link is not different in kind from advertising using promotional codes that appear, for example, in Illinois newspapers or Illinois radio broadcasts.”

Furthermore, the court noted, Illinois does not require tax collection by out-of-state retailers who have performance marketing contracts with “offline” print publishers and over-the-air broadcasters, … which indicates that many out-of-state retailers with no physical presence in the state engage in performance marketing through a variety of media such as catalogs, magazines, newspapers, television and radio, that are accessible by, or distributed to, consumers in Illinois, but are directed at a regional, national and even international audience.”

Because of these disparities, the court struck down the Illinois law.

Steve Stanek (sstanek@heartland.org) is a research fellow at The Heartland Institute and managing editor of two Heartland publications, Budget & Tax News and FIRE Policy News.
By John Kartch and Ryan Ellis

As millions of families face cancellation of their health insurance plans due to the Affordable Care Act, more commonly known as Obamacare, many will be subject to higher-than-anticipated out-of-pocket medical costs.

Unfortunately for them, this coincides with an Obamacare income tax increase starting in tax year 2013 that will make these higher medical bills even more difficult to bear.

The Obamacare law contains 20 new or higher taxes. Even before news of the widespread insurance plan cancellations, IRS data indicated 10 million middle-income families with high medical expenses would find themselves paying higher income taxes because of the so-called Obamacare High Medical Bills Tax, a provision that took effect on January 1, 2013.

According to IRS data, the average family subject to the new tax makes just over $55,000 a year and will face an income tax increase of between $200 and $400 per year.

Deduction Long Allowed

Americans have long been allowed to deduct out-of-pocket medical expenses as an itemized deduction on their taxes. They cannot have already benefited from other tax provisions for health care, such as tax-free employer-provided insurance or tax-free accounts like flexible spending accounts or health savings accounts.

Before the tax hike provision took effect, the taxpayer would total all unreimbursed, out-of-pocket medical expenses and then subtract from this figure an amount equal to 7.5 percent of the taxpayer’s adjusted gross income (AGI). This subtraction amount is known commonly as a “haircut.”

According to the IRS, 10 million families took advantage of this tax deduction in 2009, the latest year of available data. They deducted $80 billion in medical expenses after applying the haircut. The Office of Management and Budget reports the tax deduction saves these taxpayers upwards of $10 billion annually.

Obamacare’s Tax Hike

The Obamacare law changed the tax provision by raising the haircut from 7.5 percent of AGI to 10 percent of AGI. Since virtually all taxpayers claiming the deduction make less than $200,000 per year, the income tax hike falls almost exclusively on middle-income taxpayers:

• Virtually every family taking the deduction made less than $200,000 in 2009. Over 90 percent earned less than $100,000.
• The average taxpayer claiming the deduction earns just over $53,000 annually.
• Americans for Tax Reform estimates the average income tax increase for the typical family subject to the new tax will be $200 to $400 per year.

This income tax increase is focused on families with the largest medical bills that weren’t covered by insurance. So the target population is low- and middle-income families with debilitating medical costs.

Billions More from Families

According to the Joint Tax Committee, the tax increase is expected to raise between $2 billion and $3 billion annually.

The tax is a clear violation of President Barack Obama’s “firm pledge” in 2008 to not enact “any form of tax increase” on these families.

John Kartch (jkartch@atr.org) is communications director at Americans for Tax Reform. Ryan Ellis (rellis@atr.org) is tax policy director at Americans for Tax Reform. Used with permission of www.atr.org.
Obamacare Discourages Marriage

Should you get married? The Affordable Care Act says no, according to a new study from the National Center for Policy Analysis (NCPA).

“Just as there are penalties in the tax code for couples who get married, financial penalties in the Affordable Care Act also discourage couples from tying the knot,” said Devon Herrick, senior fellow with the NCPA.

All legal U.S. residents will be allowed to purchase health coverage in the exchange. However, subsidies will be available only to qualifying individuals and families with incomes from 100 percent to 400 percent of the federal poverty level—from about $23,050 to $94,200 for a family of four.

No Marriage, More Subsidy

The exchange subsidies are rather generous to low-income individuals, and they are more generous to unmarried couples than to couples who marry. Herrick explained how the subsidies work in an op-ed November 7 in Investor’s Business Daily. For example: Consider the case of two unmarried college students who move in together, each of whom earn about $23,000 annually. If that same couple married, their combined household income of nearly $46,000 would rise as a percent of the poverty level from 200 percent (individually) to 296 percent for a married family of two. As a result, their premiums in the health insurance exchange would be capped at a higher percentage of their income, providing a smaller total subsidy.

Individually they would each qualify for a subsidy of about $1,087, or $2,174 per household.

If they were to marry, their subsidy would fall to $753.

Thus, their marriage penalty is $1,421. The exchange marriage penalty is especially pronounced for couples in moderate-income households with an income of $30,000 to $55,000 annually.

Perverse Incentives

The structure of the exchange subsidies creates perverse disincentives to family formation that add to the existing marriage penalty in the tax law.

“Moderate-income couples are twice as likely to forgo marriage as couples with a bachelor’s degree,” said Herrick. “There is something fundamentally wrong about government regulations forcing moderate-income couples to decide whether they can afford the financial penalties of marriage.”

One example of the marital impact of Obamacare is a recent CBS News story profiling a married couple who are contemplating divorce to save money.

Source: National Center for Policy Analysis.

Moody’s Warns of Bankruptcy in Scranton, Pennsylvania

By Eric Boehm

Scranton, Pennsylvania could be headed toward another fiscal crisis like the one that resulted in city workers having their pay cut to minimum wage in 2012, according to a major credit ratings agency.

In a weekly publication, Moody’s Investors Service warned investors that Scranton could be facing default or bankruptcy due to a $20 million budget gap for the fiscal year that begins January 1.

The city council on November 21 approved a $130.2 million budget that includes a 56.7 percent increase in the city’s property tax and a 68.5 percent increase in the city’s trash collection fee. The additional money will be used to close the deficit, pay a $28 million union arbitration award, and make pension payments in 2014.

Without a balanced budget, the ratings agency warned two financial institutions could withdraw from scheduled debt financing for the beleaguered northeastern Pennsylvania city.

“The resulting liquidity squeeze would leave the city with few options to meet its financial obligations, raising the threat of default or bankruptcy,” wrote Moody’s analysts.

In Similar Straits Last Year

A similar crisis hit the city in July 2012, which led Mayor Chris Doherty to cut all city workers’ pay to minimum wage for several weeks, a move that made national headlines.

“A second liquidity crisis could have more severe effects, including additional defaults,” Moody’s warned.

Doherty is the current mayor of Scranton but didn’t seek re-election this year and will step down from the post at the end of the year. City tax collector Bill Cortwright, a Democrat, was elected mayor on November 5 with 55 percent of the vote, beating Republican nominee Jim Mulligan.

Neither Doherty nor Cortwright returned calls for comment.

Scranton has more than $195 million in outstanding debt, according to Moody’s.

The city has been enrolled in the state’s Act 47 program for financially struggling municipalities since 1992. A new state-approved recovery plan was put in effect in August 2012, following the last fiscal crisis.

Tax Increases on the Table

To generate revenue necessary to address its debt, Scranton officials considered taxing commuters and alcoholic drinks, though neither proposal was approved by the city council.

The Pennsylvania Economy League, which is overseeing Scranton’s Act 47 recovery plan, warned in October the city would have to raise taxes to avoid a default at the beginning of the 2014 fiscal year.

“The ability to provide sufficient revenue for the 2014 budget is crucial to meet employee, vendor and creditor obligations, to avoid a repeat of the 2012 cash flow crisis and to provide necessary and vital services to Scranton residents and businesses,” wrote Gerald Cross, executive director of the PEL, in a letter to Doherty and Janet Evans, city council president.

Moody’s said the state’s Act 47 recovery plan hasn’t done enough to help cities like Scranton escape their financial troubles. Lawmakers in Pennsylvania’s capital of Harrisburg have been eying changes to Act 47 for some time but have been unable to reach consensus on what changes are needed.

Scranton also faces more than $100 million in unfunded pension debt on top of the $195 million in other debt owed.

Eric Boehm writes for the Pennsylvania Independent, where an earlier version of this column first appeared. Used with permission of Watchdog.org.
Alcohol Crimes Decline After Wash. State Liquor Sales Privatization

By Michelle Minton

In the lead-up to Washington State voters approving privatization of liquor sales in the state, opponents claimed—as they always do—that the increased availability and lower prices would undoubtedly result in increased rates of crime, alcohol-related auto accidents, and greater numbers of minors having access to alcohol.

The number of outlets in the state has soared: Consumers can now buy liquor at more than 1,600 retailers compared to 329 state-run and rural contract stores before. While there were some reports that liquor thefts might have increased, according to the Washington State Patrol (WSP), most alcohol-related arrests have declined since privatization went into effect on June 1, 2012.

Fewer DUID, Less Possession by Minors

WSP data show there were 2,861 DUID collisions and 21,941 DUID arrests in 2008–09. Under the first year of privatization those figures were down to 2,347 DUID collisions and 19,703 DUID arrests.

Statistics for “minor in possession” showed an even bigger improvement with 1,483 cases between 2008–09 dropping to 777 during 2012–13.

While opponents of privatization claimed state liquor store employees were better equipped to prevent minors from purchasing and possessing alcohol, it seems private retail workers have been doing fine.

What could explain the drop in alcohol-related criminal activity? While many public health advocates believe increasing alcohol outlet density (the number of places one can buy alcohol in a square mile) will automatically increase the rate of alcohol-related injuries and crime, some researchers have found this isn’t so.

In his 2003 study, economist Patrick McCarthy examined 111 California cities and found a higher number of take-away alcohol stores correlated with decreases in fatal and nonfatal alcohol-related car accidents. In a 2010 study, Tenaya Marie Sunbury, a Ph.D. candidate at the University of Michigan, found higher alcohol retail density correlated with lower alcohol consumption, lower rates of binge drinking, and less drunken driving.

Sunbury hypothesizes that more stores nearby mean people have to travel shorter distances to buy their alcohol and may not have to drive at all, decreasing the likelihood of these consumers driving while intoxicated.

In the case of Washington, now that consumers can purchase their liquor while they do their food shopping, the likelihood that they will be sober when they do their alcohol purchasing is greater.

Unpredictability of Social Engineering

After privatization, the variety and availability of alcohol increased across the state. Prices at the time also increased, as the privatization measure included a tax on alcohol sellers. But prices appear to be falling to pre-privatization levels.

The moral of the story is that the consequences of any regulatory change are quite difficult to predict. Attempting to engineer consumer behavior through policy is at best unlikely to work and at worst likely to have negative effects that nobody saw coming.

The soundest course of action is to leave people free to make their own choices about how they live their lives.

Michelle Minton (mminton@cei.org) is a fellow in consumer policy studies at the Competitive Enterprise Institute. Used with permission of OpenMarket.org.

IRS Sends Billions of Dollars to Illegal Aliens

While harrying and stalling tea party groups seeking nonprofit status, the Internal Revenue Service mailed $4.2 billion in child-credit checks to undocumented immigrants.

Critics say midlevel IRS bureaucrats continue to abuse the Additional Child Tax Credit program by dispensing $1,000 checks to families in this country illegally.

“The law needs clarification that undocumented immigrants are not eligible,” Sen. Charles Grassley (R-Iowa) told Watchdog.org in a statement.

To make Congress’s intent clear—that only legal U.S. residents are entitled to ACTC credits—Grassley cosponsored a clarifying amendment with Sen. Mike Enzi (R-Wyoming).

“Unfortunately, the majority leader [Harry Reid (D-Nevada)] cut off debate, so we weren’t given the chance to offer our amendment,” said Grassley, the top Republican on the Senate Judiciary Committee.

Little Congressional Scrutiny

The IRS’s practice of paying out billions to undocumented-immigrant families never received full congressional scrutiny, said David North, a fellow at the enforcement-oriented Center for Immigration Studies.

“I’ve been in government, and I know kind of how these things work out,” North told the Washington Times.

The IRS has said it doesn’t believe the ACTC law allows the agency to deny payment to undocumented immigrants.

Watchdog.org reported in June that disbursement of ACTC credits has grown rapidly—and suspiciously—with increased issuance of Individual Taxpayer Identification Numbers as substitutes for Social Security numbers.

ITIN holders are not required to prove legal residency, and ITIN applications are running at the rate of 1 million a year.

One Address, 23,944 Refunds

Federal investigators identified one address in Atlanta where 23,994 ITIN refunds totaling $46,378,040 were delivered. A single bank account there received 8,393 refunds.

Records indicate undocumented immigrants in Virginia received $87.9 million in ACTC cash from the IRS. Watchdog.org reported $163,711 went to a single address in the tiny eastern shore town of Parksley.

In lightly populated Iowa, Grassley’s home state, undocumented immigrants received an estimated $30 million.

With an average of 15 percent of ACTC refunds directed to undocumented households nationally, North calculates roughly half of the money went to ITIN holders who paid “little or no income taxes.”

The Heartland Institute is a 30-year-old national nonprofit organization based in Chicago. Its mission is to discover, develop, and promote free-market solutions to social and economic problems. For more information, visit our Web site at heartland.org or call 312/377-4000.

The Heartland Institute is a 30-year-old national nonprofit organization based in Chicago. Its mission is to discover, develop, and promote free-market solutions to social and economic problems. For more information, visit our Web site at heartland.org or call 312/377-4000.

You Can Take Our Experts Anywhere

Whatever your policy interests, Heartland’s daily podcasts connect you with key players

**BUDGET AND TAX**
Steve Stanek and other budget and tax policy experts relate news and views from the local, state, and federal arenas.
heartland.org/issues/budgets-and-taxes

**FINANCE, INSURANCE, AND REAL ESTATE**
Stanek also interviews some of the nation’s leading experts on FIRE policy issues.
heartland.org/issues/finance-insurance-and-real-estate

**ENVIRONMENT**
James M. Taylor conducts interviews and breaks news on climate change and other environment issues.
heartland.org/issues/environment

**HEALTH CARE**
Benjamin Domenech interviews leading health care policy analysts and relates news and views from the health policy arena.
heartland.org/issues/health-care

**INFOTECH & TELECOM**
Jim Lakely brings news and views on information technology and telecom issues.
heartland.org/issues/telecom

**EDUCATION**
Joy Pullmann and the staff of the Center for Transforming Education share news and views on topics from distance learning to vouchers.
heartland.org/issues/education

Subscribe to Heartland’s daily podcasts on iTunes or listen from the audio pages at heartland.org
Let Our Speakers Spark Your Next Event

Heartland features some of the nation’s most knowledgeable and dynamic free-market public policy experts.

When it comes to planning special events, whether you are a seasoned veteran or are organizing your very first program, The Heartland Institute has the experience and the expertise necessary to ensure your success. We can provide you with service that is professional, insightful, experienced, and considerate. We’ll even manage the logistics of getting the speaker to and from your event.

We feature some of the nation’s most knowledgeable and dynamic free-market public policy experts. Heartland’s senior fellows are known nationwide and write hundreds of op-eds in major U.S. newspapers, books, and in-depth policy studies. They appear on CNBC, Fox News, CNN, and PBS, and on the opinion-editorial pages of The Wall Street Journal. They testify before Congress and speak to audiences ranging in size from 10 to 10,000.

We will assist you in finding the perfect speaker for your upcoming event and still stay within your budget. We have solutions for all your speaker needs.

Book a Heartland speaker for your event. Email Nikki Comerford at ncomerford@heartland.org, or call 312/377-4000 and ask for the communications department.

For a complete list of our speakers and topics they address, ask for a copy of our Speakers Bureau brochure, or download it from our Web site, heartland.org/speakers-bureau