Postal Service Reforms
The money-losing United States Postal Service soon may experience significant reforms. The reforms are due to be phased in, ultimately including closure of 3,700 post offices.

The Boss Tax
A growing number of states divert income tax revenue to subsidize corporations. This means many workers are, in effect, paying taxes to their boss.

Rich States, Poor States
The nine states without personal income taxes are significantly outperforming those with the highest marginal tax rates.

Chicago Infrastructure Trust
Chicago Mayor Rahm Emanuel won approval for his $1.7 billion “infrastructure trust,” a plan to bring in private investors to put up money for improvements.

Georgia Tax Boom
Georgia is already seeing benefits from a tax reform bill that modernizes and streamlines sales tax exemptions for businesses.

Social Security

By Tim Kelly
Social Security has an unfunded liability of $8.6 trillion and will run out of money by 2033, three years earlier than projected just one year ago, according to the 2012 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds.

Medicare’s hospital insurance fund is projected to run dry in 2024.

The unfunded liability is the amount that has been promised in benefits to people now alive that will exceed the revenue the system is expected to collect.

$20.5 Trillion Shortfall
The report shows Social Security’s shortfalls ballooning over time, increasing to $20.5 trillion over the next 75 years.

Social Security, p. 4

FBI Says Dixon Official Stole $53 Mil.

By Steve Stanek
The small town of Dixon, Illinois had a comptroller who managed to steal at least $53 million from the city, according to FBI agents, who led Rita Crundwell away in handcuffs in April.

The cost comes to nearly $3,376 for every man, woman, and child in this town of 15,700 in northwest Illinois. Dixon is probably best known as the boyhood home of President Ronald Reagan.

Crundwell, 58, is internationally known in equestrian circles as the owner of the Meri-J Ranch in Dixon and Beloit, Wisconsin, which breeds and shows champion quarter horses. She also owns farms in several other states. She alleg-
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IDEAS THAT EMPOWER PEOPLE
Illinois Judge Strikes Down State’s Internet Affiliate Tax Law

By Peter White

A Cook County Circuit Court judge has struck down Illinois’ Internet affiliate tax law, handing a victory to thousands of Internet entrepreneurs across the state.

The ultimate outcome is likely to rest with the Illinois Supreme Court, which hears on direct appeal cases in which a statute has been held invalid. For now, supporters of the challenge to the law view the ruling as an important step in thwarting a barrage of oppressive taxes that are driving jobs out of Illinois and diminishing the state’s revenue.

“We were surprised, very pleasantly surprised, not at the ruling itself but at how quickly the judge made the ruling,” said Rebecca Madigan, executive director of the Performance Marketing Association, the plaintiff in the case. “However, he said this was such an obvious violation of the constitution that the law does not pass legal muster.”

The law took effect July 1, 2011 and targeted retailers who had contracts with businesses in Illinois that posted links on their Web sites to the retailers’ Web sites. The law compelled those retailers to charge a use tax on any products purchased after a consumer was “linked through” to the retailer’s site from an Illinois affiliate.

One-Third of Businesses Gone

When the General Assembly passed the law, it was sold as a revenue generator, but Madigan said approximately 3,000 of the state’s estimated 9,000 Illinois-based online affiliates have either closed their doors or moved to neighboring states. Illinois-based online affiliates generated as much as $744 million last year and paid $22 million in state income taxes.

Judge Lopez Cepero on April 25 ruled the law unconstitutional on two grounds: it violated the Commerce Clause of the United States Constitution, which limits what entities a state can tax; and it conflicted with the federal Internet Tax Freedom Act, which prohibits states from imposing a discriminatory tax on electronic commerce.

The Illinois Department of Revenue is an attorney with the Liberty Justice Center, a litigation center that company must have some physical connection to Illinois commerce necessary to tax out-of-state retailers. Traditionally, in order for Illinois to exercise its taxing power over a foreign company, that company must have some physical presence within the state, whether it be an office, a factory, or even salesmen who pitch the company’s products directly to residents of Illinois.

Not Enough Nexus

Regarding the Commerce Clause, Cepero said the state failed to establish the retailers maintained the requisite “nexus” or

“Our attorneys tell us it’s quite rare for a judge to issue a bench ruling, especially on a constitutional basis. However, he said this was such an obvious violation of the constitution that the law does not pass legal muster.”

REBECCA MADIGAN EXECUTIVE DIRECTOR PERFORMANCE MARKETING ASSOCIATION

Illinois such that it must register with the Department of Revenue and charge customers a use tax.

Federal Moratorium

The Illinois law also was fatally flawed in that it attempted to tax Internet commerce. This directly conflicts with the federal Internet Tax Freedom Act, which prohibits states from imposing a discriminatory tax on electronic commerce.

Because the Illinois affiliate tax law imposed an obligation to collect Illinois use taxes on retailers who completed sales transactions through Internet-based advertising, rather than other forms of advertising, it violated the federal statute that prohibits such discriminatory taxes against Internet commerce. Cepero ruled this Internet tax “moratorium” applied here, and therefore the Illinois law must be struck down.

The Illinois Department of Revenue has 30 days to appeal to the Illinois Supreme Court.

Madigan said the PMA is “waiting to see when the law will be suspended and how. We’re hoping at the very least it is suspended or ignored through the appeals process.”

Peter White (pwhite@libertyjusticestcenter.org) is an attorney with the Liberty Justice Center, a litigation center started by the Illinois Policy Institute.
Social Security Projected to Go Belly Up by 2033

Continued from page 1

In addition, “Extending the horizon beyond 75 years increases the measured unfunded obligation,” the report said.

The sluggish economy and high energy prices have contributed to the worsening of Social Security finances.

More than 56 million retirees, spouses, disabled workers, and children currently receive Social Security. In addition, about 50 million people are covered by Medicare, the medical insurance program for elderly Americans that was created in 1965 under Title 18 of the Social Security Act.

The trustees who oversee Social Security are urging Congress to pass legislation to deal with the crisis.

Sooner Better than Later
“Lawmakers should not delay addressing the long-run financial challenges facing Social Security and Medicare,” the trustees wrote. “If they take action sooner rather than later, more options and more time will be available to phase in changes so that the public has adequate time to prepare.”

No action is expected before the November elections.

The trustees also say the two programs are Social Security Commissioner Michael Astrue, Treasury Secretary Timothy Geithner, Labor Secretary Hilda Solis, Health and Human Services Secretary Kathleen Sebelius, and two non-governmental trustees, Charles Blahous and Robert Reischauer.

Geithner called Social Security and Medicare “twin pillars of retirement security in this country” and said “it is critical that reforms are slowly phased in over time so current beneficiaries are not affected and future beneficiaries do not experience precipitous changes.”

No Serious Plan
John C. Goodman, president of the National Center for Policy Analysis, believes the problem is much worse than the government is reporting.

“We not only don’t have the money in the bank, no one has a serious plan to put it there,” said Goodman.

“The actual liability is almost twice what the government is reporting. In 2009 the trustees calculated the two programs’ unfunded liability at about 6.5 times the size of the U.S. economy. But the next year the unfunded liability was cut in half. The reason: Obamacare. The minute President Barack Obama signed his health care reform bill, he cut Medicare’s [reported] unfunded liability by more than $50 trillion,” Goodman added.

Goodman says Obamacare uses cuts in Medicare to pay for more than half the cost of expanding health insurance for young people. That means even if the Medicare cuts take place, they won’t reduce the government’s overall obligations.

“They just replace entitlements for seniors with entitlements for young people,” he said.

Bill Wilson of Americans for Limited Government says even without Obamacare, Medicare would be in dire straits.

Promise Too Much
“Like the other entitlement programs, it has promised far more than can be delivered on a sustainable basis. All of these programs are lies that promise too much.”

BILL WILSON
AMERICANS FOR LIMITED GOVERNMENT

He added, it is “no surprise that particularly the Social Security program has lost three years off the life of its trust fund in a single year. Obama and Congress foolishly underfunded the program by $95 billion with [their] election year extension of the so-called payroll tax holiday. They are consciously facilitating the bankruptcy of the program.”

Wilson says government borrowing to fill in the shortfall is only a temporary stopgap measure, “and in the end this system will collapse because we cannot tax at a high enough rate to save these programs.”

Upbeat AARP
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“For the millions of Americans who have paid into Social Security and Medicare and are counting on their benefits, today’s reports offer a clear assessment of the true status and long-term challenges facing these critical programs,” said AARP Executive Vice President Nancy Leamond in a statement. “The reports underscore the need for an open, national conversation focused on strengthening retirement security for today’s seniors and future generations.”

Although Leamond acknowledged action is necessary to deal with the system’s long-term imbalances, she said the reports “reaffirm that the program can pay full benefits until 2033, and roughly three-quarters of promised benefits beyond that time. It is important to note that the report also confirms that Social Security’s Trust Funds continue to grow and the payroll tax holiday has had no impact on the program’s solvency, as the Treasury has repaid all borrowed funds.”

Of course, for the Treasury to repay the borrowed Social Security funds, it must collect taxes from businesses and individuals or borrow more money that must be repaid.

Tim Kelly (tkelly67@comcast.net) is a political cartoonist, policy advisor, columnist for the Future of Freedom Foundation, and a correspondent for Radio America’s Special Investigator.
Dubious Dollars

Crundwell had total control of city finances. In addition to being comptroller she held the job of city treasurer. So she oversaw money coming in and going out. Tight budgets in recent years have kept streets from being repaired and the city swimming pool from being opened.

That she was able to accrue millions of dollars of assets and own one of the top horse farms in the nation on a salary of $83,000 a year at the time of her arrest probably should have been a tipoff that something was amiss, according to Dixon Mayor James Burke, who told reporters, “I guess people assumed she was making a ton of money in the horse business.”

Crundwell had been Dixon comptroller since the 1980s, but the theft of $53 million allegedly started in 1990.

Agents executed search and seizure warrants at various locations, including Crundwell’s home, office, and horse farms. They also seized the contents of two bank accounts she controlled. Among other items seized were seven trucks and trailers, three pickup trucks, a $2.1 million motor home, and a Ford Thunderbird convertible, all of which were allegedly purchased with illegal proceeds. These and other assets, including more than 300 horses—some of them regarded as among the finest in the nation—will be sold with much of the money being used for restitution, according to officials.

Extended Vacation Downfall

Burke reported Crundwell to the FBI last fall, after she left for an extended vacation. A city employee who assumed Crundwell’s duties in her absence had asked for all the city’s bank statements and became suspicious about hundreds of thousands of dollars of recent deposits and withdrawals from a certain account. That employee took the records to Burke, who had no idea the account existed, according to the FBI complaint.

Although the bank records show the primary account holder is the City of Dixon, a joint account holder is listed as RSCDA, and the checks written on the account list the account holder as “R.S.C.D.A., C/O Rita Crundwell.”

During the six months the FBI had Crundwell under investigation, she allegedly used more than $3.2 million of city money for her personal and business expenses, “including approximately $450,000 relating to her horse farming operations, $600,000 in online credit card payments, and $67,000 to purchase a 2012 Chevy Silverado pickup truck,” according to the FBI statement.

Suspicious Funds Transfers

Further investigation showed Crundwell had been moving money from multiple city bank accounts into the RSCDA accounts, and many of the transfers appeared to have no legitimate tie to city business.

In a written statement to residents, Burke said independent audit results “year after year disclosed no instances of non-compliance or other matters required to be reported under government auditing standards. Furthermore, the Illinois Governmental Account Audit Act requires the City to file its annual audit and other financial documents with the Illinois Comptroller’s Office. The audit review showed no adverse findings or red flags about the City of Dixon Audit. Fifth Third Bank, where many city accounts are held, plus the account that Ms. Crundwell transferred funds into, never reported anything suspicious.”

The mayor explained the apparent decades-long thefts by writing, “We are a tax capped community, which means we cannot raise property taxes to meet expenses. Like Lee County, we have seen a sharp decline in revenues from the landfill. Cash flow problems were complicated because the State has been substantially behind on income tax payments. The City is self insured, and we have experienced a significant increase in health care costs. The City has also invested in our infrastructure with many projects which have benefited our community. These facts combined led to a plausible reason for the financial problems our community is facing.”

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.
Under Budget Pressure, Wisconsin Raises Medicaid Premiums

By Loren Heal

The Wisconsin legislature’s Joint Committee on Finance has agreed on a plan to raise premiums for some working enrollees in Wisconsin’s Medicaid programs.

The changes were needed to sustain the program after rapid expansion and demand that surpassed estimates. Facing a need to fill budget holes caused by the rising cost of Medicaid—called BadgerCare in Wisconsin—the Joint Committee on Finance, whose membership is divided between the Wisconsin Senate and General Assembly, approved the plan proposed by the state Department of Health Services (DHS).

According to Wisconsin DHS spokesperson Beth Kaplan, the plan involves charging fees to 44,000 Medicaid participants who previously didn’t have to pay.

“State funding for Medicaid had to be significantly increased above the last biennium’s budget due to federal matching funds decreasing by $1.33 billion and also because the previous budget estimates were based on a projected decline in enrollment,” Kaplan said. “After adding $1.2 billion of additional state funding for the current budget cycle, we still needed to find savings to keep the program in balance with the state budget. Our proposals allowed us to find the needed savings. We believe they are fair and common sense.”

Kaplan says the changes, if approved by the U.S. Department of Health and Human Services, will give BadgerCare a future.

“At town hall meetings statewide, people told us they could contribute toward their premiums,” Kaplan said.

Significant Increase for Enrollees

According to Wisconsin state Sen. Frank Lasee (R-De Pere), the change is necessary but significant.

“It’s a fairly significant increase. The maximum premium for working enrollees under the plan is very similar to what a state government worker pays for our portion of the family plan, about $200 per month,” Lasee said.

Lasee said the sheer weight of the population on BadgerCare was straining the budget.

“Even though we added an additional $1.2 billion into the Medicaid area of our budget, out of the 5.5 million people in Wisconsin about 1.2 million are on Medicaid or BadgerCare, which equals about 20 percent of our population,” Lasee said. “Even with the increase, that didn’t increase rates to doctors and providers of medical services at all—that was money we needed just to cover the bills that came with the deficit. We still needed to cut $500 million more, and that’s what forced our hand on these changes.”

Costs Left Unaddressed

Mike Ford, research director for the Wisconsin Policy Research Institute, said the changes were necessitated by the economic downturn and state Medicaid eligibility expansions under former Wisconsin Gov. Jim Doyle (D).

“What’s happened here is two things that increased eligibility for Medicaid: One, the recession, and two, the previous governor’s administration greatly increased the number of people receiving BadgerCare,” said Ford. “With the recession, Wisconsin, along with what seems like every other state, has a revenue problem. So in order to keep those most in need getting the maximum benefit from BadgerCare, there needs to be something done to rein in costs.”

Raising taxes in a recession was “a nonstarter,” according to Ford, particularly under current Republican Gov. Scott Walker.

“Another thing you could do is cut people off the rolls, which is obviously problematic,” Ford said. “So the route the current administration took was kind of the user-fee route: increasing the contribution by those who can work in order to maintain benefits for those most in need.”

Higher Incomes on Medicaid

Lasee acknowledges the increases may meet with resistance, but as the BadgerCare program has expanded to cover increasingly higher incomes, individuals on Medicaid can now afford to pay something for the services they receive, he says.

“I believe the changes are fair. I’ve had people tell me ‘I’m on BadgerCare, but feel guilty because [I] could afford to pay something for it.’ If you’re working, you should be contributing toward your insurance …”

FRANK LASEE, STATE SENATOR, DEPERE, WISCONSIN

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Loren Heal (loren.heal@gmail.com) is a research programmer at University of Illinois at Urbana-Champaign and a reporter for The Heartland Institute. This article first appeared in the June issue of Health Care News and is used here with permission.
Politics, Union Work Against Postal Service Reform

By Cheryl K. Chumley

Unless Congress decides otherwise, the money-losing United States Postal Service will see significant reforms starting May 15. Those reforms, due for slow phase-in, could ultimately include the closure of 3,700 post offices and the layoff or reassignment of 4,500 employees.

The proposed cuts are a public relations nightmare. To ease the pain, the U.S. Senate in late April passed, by a 62–37 vote, S. 1789, which would delay for at least two years the closure and consolidation of 100 mail processing plants across the nation, the job cuts, and the termination of Saturday delivery service. The bill would shrink the Postal Service workforce by up to 100,000 via a $7 billion early retirement option.

Sen. John McCain (R-AZ) said of the Senate bill, “This of course kicks the can down the road.”

‘Wholly Unacceptable’

Many on the House side agree. In a statement, Rep. Darrell Issa (R-CA) called the Senate bill ‘wholly unacceptable.’

Issa has been fighting the Postal Service’s bloated budget and debt problems for months in his role as chairman of the Oversight and Government Reform Committee.

Even postal worker unions show little enthusiasm for the Senate plan, though if push came to shove, labor representatives would rather see that version reach fruition than what Issa is proposing in the House. Issa is calling for reform that puts the Postal Service on a five-day delivery schedule and bans no-layoff clauses from union contracts.

“We are vehemently in opposition to the proposal Darrell Issa put out,” said Sally Davidow, spokesperson for the American Postal Workers Union. “We think the Senate bill is a starting point. It doesn’t solve all the problems but it’s a place to start.”

Pension Pre-Funding Requirement

Davidow places the blame for the Postal Service’s fiscal situation squarely at the feet of a 2006 law that requires the Postal Service to pre-fund employee pensions. She says the Senate bill would be easier to stomach if it included provisions overturning that mandate.

“The Postal Service actually has to pay money into the fund,” she said, adding the payment costs $5.5 billion a year. “It’s a manufactured crisis. It’s a 100 percent pre-funding requirement and no other government agency has to do that. The Senate bill cuts this requirement to 80 percent pre-funded … but it really just nibbled around it. We would like to see it cut. That would certainly be the goal.”

The pre-funding requirement came as a solution to the Postal Service’s already mushrooming debt, and is hardly a causal factor, say others.

‘Oversized, Overly Compensated’

“No one credibly blames the 2006 pension pre-funding requirement as cause for the USPS debt. In fact, a large portion of the pension pre-funding payment never occurred. Congress allows the USPS to delay payment,” said Christopher Prandoni of Americans for Tax Reform. “The major force impelling USPS debt is simply the oversized and overly compensated union workforce.”

More than 85 percent of Postal Service workers have collective bargaining agreements, many of which contain no-layoff guarantees, Prandoni said. The positions are high-paying, he noted.

“In 2009, USPS employees made [on average] $79,000 in total compensation. That is $18,000 more than the [average] private-sector worker,” he said. “This union premium of 20 percent more in annual compensation explains why around 80 percent of USPS costs are labor-related. Similarly, as the USPS saw a drop in mail volume … the Postal Service unions fight layoffs tooth and nail, leaving the government entity with too many employees who are paid too much.”

The USPS has lost $25 billion in the past five years, according to the Government Accountability Office.

Postmaster General Patrick Donahoe also warns of more losses in coming years, to the tune of $21 billion by 2016, and $5 billion in 2012 alone. An estimated “80 percent of its locations” lose money, The Heritage Foundation finds.

Cheryl Chumley (ckchumley@aol.com) writes from Northern Virginia.

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For Some Workers, Paying Income Taxes Means Paying Their Employers

By Greg LeRoy

People may dislike paying income taxes, but many at least take heart knowing their dollars support government services ranging from public schools to public safety. But that’s not all the income taxes support. Nearly $700 million in taxes paid by workers at more than 2,700 companies in 16 states is being diverted away from government services each year. And it is unlikely the affected workers are aware the diversion is taking place, given that no state requires it be disclosed on pay stubs.

The money is going to the employers of those workers as a growing number of states divert income tax revenue to subsidize corporations. The practice of redirecting state personal income tax (PIT) deducted from paychecks means many workers are, in effect, paying taxes to their boss.

These are the findings of “Paying Taxes to the Boss,” a new report by Good Jobs First, a nonpartisan national policy research organization in Washington, DC. It is the first systematic examination of state economic development programs derived from withholding taxes and PIT revenue. Good Jobs First has identified 22 PIT-based programs in 16 states that together involve the annual diversion of about $684 million in revenue.

‘Piracy and Blackmail’

Many of the programs are entwined with "job piracy" and "job blackmail," said Philip Mattera, research director of Good Jobs First and principal author of the report. Many PIT diversions are paying corporations simply to relocate existing jobs from one state to another. Others are used by states when they capitulate to companies that threaten to move to another state.

The study authors recommend states consider abolishing PIT-based subsidies, or, short of that, requiring companies to disclose the details of how much money is going where on every pay stub of affected workers.

The report examines the following PIT-based subsidy programs:
- Colorado: Job Growth Incentive Tax Credit
- Connecticut: Job Creation Tax Credit
- Georgia: Job Tax Credits
- Georgia: Research and Development Tax Credit
- Illinois: Economic Development for a Growing Economy (EDGE) Tax Credit
- Indiana: Economic Development for a Growing Economy (EDGE) Tax Credit
- Kansas: Promoting Employment Across Kansas (PEAK) Program
- Kentucky: Kentucky Business Investment (KBI) Program
- Kentucky: Kentucky Industrial Revitalization Act (KIRA)
- Maine: Employment TIF (ETIF)
- Maine: Shipbuilding Facility Credit
- Mississippi: Impact Withholding Rebate Program/Existing Industry Withholding Rebate Program
- Mississippi: Mississippi Advantage Jobs Incentive Program
- Missouri: Quality Jobs Program
- Missouri: The Missouri Automotive Manufacturing Jobs Act
- New Jersey: Business Employment Incentive Program (BEIP)
- New Mexico: High Wage Jobs Tax Credit
- North Carolina: Job Development Investment Grants (JDIG)
- Ohio: Job Creation Tax Credit
- Ohio: Job Retention Tax Credit
- South Carolina: Job Development Credits
- Utah: Economic Development TIF (EDTIF)

The programs work in various ways. Some allow employers to retain, never remitting to the state, a large portion of the withholding taxes generated by designated new or retained workers. Some programs provide cash rebates or grants calculated the same way. Others provide credits against corporate income taxes or other business levies, with the value of those credits derived from the withholding taxes of new or retained workers. Some of these credits are cash-refundable if the credit exceeds the company’s tax liability.

100 Percent Diversions

The share of withholding taxes diverted into subsidies can be as high as 100 percent, as is the case with programs such as the EDGE tax credits in Illinois and Indiana, and the duration can be as long as 25 years, as is the case with Mississippi’s Withholding Rebates. A total of 12 programs divert 75 percent or more of withholding, and 18 provide 10 or more years of subsidies.

The most expensive program is New Jersey’s BEIP, which in FY2011 approved new grants worth up to $73.2 million over their multi-year terms and disbursed $178 million during the year for previously approved contracts. Among states with subsidy recipient disclosure, those with the largest number of participants in PIT-based programs are: Ohio (367), Kentucky (306), Illinois (315), New Jersey (306), and Indiana (283).

‘Economic War Among States’

The report highlights how such programs fuel the “economic war among the states” and “job blackmail.” For example, Kansas gave AMC Entertainment $47 million in PEAK subsidies last year to get the movie theater chain to move its headquarters from downtown Kansas City, Missouri about 10 miles across the state line to suburban Leawood.

In Illinois, Motorola Mobility (now part of Google) last year persuaded state officials to provide $100 million in EDGE tax credits over 10 years to keep its headquarters in a Chicago suburb. Moreover, these were newly enhanced EDGE benefits, meaning the company may immediately keep employee withholding taxes rather than crediting them against its state corporate income tax liability.

Also late last year, Illinois’ governor and legislators gave Sears Holdings a 10-year, $150 million conventional EDGE deal to keep the retailer’s headquarters in another Chicago suburb. It was the second massive “job blackmail” package for Sears; the retailer already had been receiving big state and local tax subsidies since first threatening to leave the state in 1989.

Greg LeRoy (goodjobs@goodjobsfirst.org) is executive director of Good Jobs First, a nonpartisan national policy research organization in Washington, DC.

INTERNET INFO

“Paying Taxes to the Boss,” Good Jobs First: http://www.goodjobsfirst.org/taxestotheboss
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Rich States, Poor States Shows Benefits of Low Taxes

By Jonathan Williams

Almost four years after the Great Recession of 2008, we’re left wondering what could spur an economic recovery. The outlook is bleak. Bad federal news, such as the $15.6 trillion national debt, flows unhindered.

Accounting the states are facing budget shortfalls and unfunded pension obligations as far as the eye can see. These financial obligations clearly were not caused by a shortfall of taxes, as state tax receipts have now recovered to pre-recession levels. The Mercatus Center at George Mason University found that from 2000 to 2009 alone, real state and local spending had grown 90 percent faster than real private-sector gross domestic product. Unquestionably, these trends in state spending are unsustainable.

Faced with these daunting circumstances, many states have taken the lead in identifying and implementing pro-growth economic policies, and they have limited the economic suffering.

In the latest edition of Rich States, Poor States, Arthur Laffer, Stephen Moore, and I contrast the states that are enjoying growth with the states that continue to struggle—namely, the tax-and-spend states. We provide an economics 101 lesson, discussing the theory of incentives, and the evidence suggesting that taxpayers respond to misguided policies by voting with their feet and leaving states that become inhospitable.

Voting With Their Feet

Americans are voting very strongly against states with high taxes, as evidenced by states that gained congressional seats following the 2010 Census and states that lost seats.

At the state level, a vast majority of legislators are required to balance their states’ budgets, unlike the federal government. Therefore, taxes and spending are two sides of the same fiscal coin: Many state policymakers can’t add a budget item without raising taxes or cutting spending elsewhere. Rich States, Poor States highlights the policies on both sides of the coin that lead to the greatest success.

Of particular interest, the nine states without personal income taxes are significantly outperforming the states with the highest marginal tax rates. The results are truly telling. The no-income-tax states outperform their high-tax counterparts across the board in gross state product growth, population growth, job growth—and tax receipt growth.

Lower Taxes, Higher Growth

Over the past decade, the nine no-income-tax states, on average, saw 39.2 percent greater growth in economic output, 148.6 percent greater growth in population, and 81.7 percent faster revenue growth than the average of the nine states with the highest tax rates. While the highest income tax states suffered a net 1.7 percent job loss, the no-income-tax states enjoyed job growth of 5.4 percent.

Many on the Left bristle at the idea of reducing personal income tax rates. However, let us not forget that many small businesses pay these personal income taxes as subchapter S corporations, limited liability partnerships (LLPs), and other “pass-through” entities. These small businesses make up more than 90 percent of all businesses, employ more than 50 percent of American workers, and pay more than 40 percent of all business taxes.

Some state leaders are beginning to recognize the negative impact personal income taxes have on growth. Keep an eye on Kansas, Missouri, and Oklahoma, where the personal income tax may soon become a thing of the past.

In this fifth edition of Rich States, Poor States, we also provide a case study of one of the most egregious state taxes: the unpopular and economically damaging estate or “death tax.” We incorporate anecdotal evidence and state economic data to show why the death tax is one of the worst possible taxes for state economies.

Throughout statistical and anecdotal evidence, Rich States, Poor States makes a compelling case that pro-growth fiscal policy is what really makes the difference for economic vitality in the states. No state has ever taxed, or spent, its way into prosperity.

Pro-Growth Paths

One beauty of the American experiment is that it allows states to choose which paths they will follow. We hope this publication will give lawmakers ample evidence to support pro-growth policies that bring about state economic recovery and prosperity for their citizens.

The choice is not a partisan one. As President Ronald Reagan would have said, the choice is not about Republican versus Democrat; the choice is between up or down for the future of our states.

Rich States, Poor States provides 50 snapshots from our “laboratories of democracy” for you to evaluate. Study the rankings, read the evidence, and learn about the established principles that lead to economic growth, job creation, and a higher standard of living for all Americans.

Jonathan Williams (jwilliams@alec.org) serves as director of the Center for State Fiscal Reform at the American Legislative Exchange Council and is an author of Rich States, Poor States.
Big Fees, Small Returns for Illinois’ Teachers Retirement System

By Robert Reed and Brett Chase

Illinois’ largest public employee pension fund paid more than $1 billion in fees to hundreds of financial managers over the past decade but reaped only a paltry annual return on its investments over that period, according to a Better Government Association investigation.

The Teachers Retirement System (TRS) of Illinois—which is financially strapped and concerned about its long-term viability—paid more than $1.3 billion for money managers and brokerage firms to handle its $30 billion-plus in financial assets during a 10-year period ending in fiscal 2010.

Despite paying big money for high-powered investment expertise, TRS’s 10-year average rate of return was a mere 3.7 percent excluding the cost of fees, far below its 8.5 percent annual target return.

Below Median Results
Including fees, the pension’s return during the period was 3.3 percent, according to TRS, just below the median of 3.4 percent for public pensions during that period.

Almost 200 firms received more than $1 million in fees, while the top 10 firms averaged $38 million each during the 10-year period between 2001–10, the BGA found.

Included in the top 10 is Washington, DC-based private equity firm Carlyle Group, locally based Capri Capital Partners, and the now-defunct Commonwealth Realty Advisors, co-founded by William Cellini, an Illinois political powerbroker who was convicted of extortion and bribery in federal court last November.

‘Shocking Amount for Little Value’
“It’s a shocking amount of money for very little value,” said Frank Partnoy, professor of law and finance at the University of San Diego School of Law and an expert on financial markets and regulation. “Two things are surprising: One is just the sheer dollar amounts, which are massive. The other is the number of vendors.”

In a written statement to the BGA, TRS said its payouts to money managers are in line with other public pensions of similar size and that its returns were hurt by “steep losses sustained primarily during the 2008 and 2009 global financial crisis that pulled down the system’s 10-year average rate of return.” TRS added that its investments rebounded with 2011’s 24 percent return.

While the pension fund’s returns have been uneven, the amount of money going to outside financial managers escalated over the decade.

Soaring Costs
The BGA analyzed TRS fee information and found:
• From 2001 to 2010, TRS annual fees more than doubled from $83 million to almost $204 million. During that period, assets grew by a little more than one-third from $23.3 billion in 2001 to $31.3 billion in 2010.
• TRS paid more than $382 million, or about 28 percent of all its fees, to its top 10 money managers and advisors between 2001 and 2010, according to figures provided by TRS.
• Private equity firm Carlyle was by far the largest vendor for TRS during the 10-year period, according to figures provided the BGA. TRS invested in 11 of that firm’s funds, paying Carlyle more than $71 million. In 2010, TRS recorded declines for five of the Carlyle funds in which the pension invested.

Carlyle has a controversial past. In 2009, it agreed to pay a $20 million fine to resolve its role in an investigation of alleged public pension-related corruption in New York state conducted by Andrew Cuomo, who was then the state’s attorney general and is now New York’s governor. A Carlyle spokesman declined to comment on the firm’s relationship with TRS.

• Millions were paid to clout-backed Commonwealth Realty Advisors Inc. Cellini’s now-defunct investment group received $30.8 million in TRS fees between 2001 and 2010—sixth highest on the top 10 list of financial vendors for the pension. In November 2011, Cellini was convicted on two federal charges stemming from an effort to extort money from a co-founder of Capri Capital, another investment firm doing business with TRS.

Solvency Risk
TRS is woefully underfunded. It reports more than $81 billion in long-term liabilities and had enough assets to meet less than half of those obligations as of June 2011.

Recently TRS has added that its underfunding, coupled with the state’s growing deficit, could mean insolvency by 2030.

Outside industry experts say even when taking the 2008 and 2009 market downturn into consideration, TRS is not getting a big enough return for the amount of money it’s spending on financial advisor fees.

Fees ‘Off the Charts’
“I don’t know how [TRS is] paying fees like this,” said Dale Rosenthal, assistant professor of finance at the University of Illinois Chicago. “This is so off the charts, they should be making magic for that kind of money.”

In its statement, TRS said its “investment management fees are competitive, and often superior, to public pension plans of a similar size.”

Indeed, some other state funds are paying higher fees: the Pennsylvania State Employee Retirement System spent $1.3 billion over the past five years for a 3.6 percent return.

Still, other state funds are now aiming to drive down fees, including in Wisconsin, New York, and California, home to the nation’s largest state pension fund at $242 billion. California’s pension fees recently grew to $1 billion per year.

Robert Reed (reed@bettergov.org) is the Better Government Association’s director of programming and investigations. Brett Chase (bchase@bettergov.org) is a Chicago-based freelance reporter and BGA investigator.
California Voters to Have Say Over Cigarette Tax Hike

By Steve Stanek

California citizens will soon vote on whether to raise the state’s cigarette tax from 87 cents to $1.87 a pack, with supporters saying the money would fund cancer research and opponents saying there’s no guarantee how the money would be used, or where.

“The June 5 ballot measure known as Proposition 29 and more formally as the California Cancer Research Act has retailers and taxpayer advocates rising in opposition, with many arguing it fails to meet the state’s fiscal needs. The measure also raises taxes on other tobacco products.

Supporters say Prop 29 would provide more money for cancer research, tobacco law enforcement, and smoking prevention programs to reduce illness and medical-related costs.

‘Emotional Appeal’

“This is a proposition that is cloaked in emotional appeal. Who would not want cancer research? ... But this proposition does not address the priorities of the state of California,” said Jessica Headley, communications director for Americans for Prosperity in California. “You have $735 million going towards cancer research. Meanwhile, California is facing a $10 billion budget deficit.”

She added, “This proposition doesn’t mandate that the funds have to stay here in California. You could have the [research] created anywhere in America or internationally, and it doesn’t designate that the revenues return to the State of California, either. So that’s one of the problems. Another one is that, by law, 40 percent of new taxes in California are to go to education. This has a loophole to get around that. ... People who are concerned about education, their ears need to perk up over this, because the money is not going to education as it should be.”

Supporters include the American Cancer Society, American Heart Association, and American Lung Association. Cancer survivor and former California state Sen. Don Perata of Oakland has been perhaps the most recognized political personality to champion Prop 29.

‘Prey on Poor People’

“These bastard tobacco companies just prey on poor people and the young,” Perata told the Los Angeles Times. “I remember when I was [Alameda County] supervisor, back in the ‘90s, they’d play ethnically appropriate music in East Oakland and parade out buxom women to hand out free samples.”

Stanton Glantz of the Center for Tobacco Control Research and Education at the University of California-San Francisco issued a paper in February in which he wrote tobacco consumption would fall “by an average of $1.0 billion per year for the first five years after the CCRA passes,” with small losses in retail jobs but gains in other areas for an overall net increase in economic activity.

Others point out the problem with relying on taxes on a product with falling sales.

The California Taxpayers Association argues Prop 29 “is a classic example of ballot-box budgeting that would establish a new program funded by a declining revenue source. The new bureaucracy would duplicate government programs already funded by taxpayers, and none of the money from the tax hike would be used to pay for cancer treatment.”

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.
Wisconsin Employers Expand Talk Radio’s Reach

By Brien Farley

A n ad hoc group of Wisconsin business leaders and free-market activists is hoping to prevent the recall of Gov. Scott Walker (R) and other pro-business legislators by spreading Milwaukee and Madison conservative talk radio programs to other parts of the state.

“If you look at southeast Wisconsin, where local conservative talk radio is heard, the area has turned very conservative,” said Orville Seymer of Citizens for Responsible Government, a Milwaukee-based political action group that is working on the effort.

“Senator Ron Johnson publicly credits [local hosts] Charlie Sykes and Vicki McKenna with helping him to get elected,” Seymer said. “Scott Walker gives a lot of credit to Milwaukee and Madison conservative talk radio for his election both as Milwaukee county executive and as governor.”

Citizens for Responsible Government is one of the members of Businesses for Wisconsin Jobs, which has come together to get these talk radio shows heard across the state.

Walker took office last year and infuriated government workers with a labor reform bill that forced them to pay more for pensions and health insurance, limited collective bargaining, and ended automatic withdrawals of union dues from workers’ paychecks. Angry union workers collected enough signatures to force a recall election, scheduled for June 5.

Jerry Bott, director of programming and operations at WISN radio in Milwaukee, said it is no coincidence that Walker won by huge margins in southeast Wisconsin in the 2010 gubernatorial election, which was won by Milwaukee conservative talk radio hosts.

“We have been able to produce some of the most powerful, proper, and effective arguments for conservative policies and principles,” said Bott. “This has an effect on public opinion in areas where conservative talk radio can be heard which, in turn, provides a fertile environment for conservatives seeking public office to be elected.”

In addition to Walker and Johnson, southeast Wisconsin is home to other notable conservative politicians, including Congressmen Paul Ryan (R) and Jim Sensenbrenner (R) and Republican National Committee Chairman Reince Priebus.

“Talk radio has had a very specific impact on who represents the people of southeast Wisconsin,” said Brett Healy, former CEO of Industrial Towel & Uniform, Inc. and one of the founders of BWJ.

“Talk radio has had a very specific impact on who represents the people of southeast Wisconsin,” said Brett Healy, president of the John K. MacIver Institute for Public Policy and a close observer of Wisconsin politics for more than 20 years. “If you can get some of these personalities on the local radio for the long term, this will be a great case study to see if it has a discernible effect on local elections and politics” in western and northern Wisconsin.

Recall Reaction

Local conservative talk radio has been a force in southeast Wisconsin for quite some time. So why do this now?

“Recalls,” declared Rob Kiekehefer, managing partner at the Kiekehefer Group, a retirement plan consulting firm and one of the founders of BWJ. He noted last summer’s successful recall of state Sen. Dan Kapanke (R-La Crosse), which was made smaller by bad policies, all sorts of people are hurt, including those the left claims to be very concerned about,” Kiekehefer said.

Likelihood of Success

After only a few weeks, Businesses for Wisconsin Jobs has successfully placed WIBA/WISN’s Vicki McKenna Show on WMEQ radio in Eau Claire in western Wisconsin and is making inroads with stations in the far western area of the state.

Healy said the inherent fiscal conservatism of Wisconsinites may prove this effort’s key to success.

“When people realize, through the medium of talk radio, all the specific examples of how government at every level is wasting their tax dollars, that’s the power of talk radio. I think that’s where you see tangible results and changes in public perception in Wisconsin,” Healy said.

Filling a Media Vacuum

“The absence of conservative talk radio in northern and western Wisconsin leaves a sizable portion of the population under-informed about extremely important issues,” said Leef. “For the overall health of the business community and local economies in Wisconsin, we need voices that are pro-jobs, pro-freedom, and pro-lower taxes to be heard.”

“Conservative talk radio strongly supports economic liberty and restraining government from curtailing those liberties through stifling regulation or punitive levels of taxation,” added Bott.

“Those principles tend to allow businesses to grow and be profitable. That’s why business likes conservative talk radio.”

“Any pro-business and/or free market person should welcome the effect of conservative talk radio on the political climate,” said John McAdams, associate professor of political science at Marquette University and a policy advisor to The Heartland Institute, which publishes Budget & Tax News.

“While liberals and leftists assume there is a fixed economic pie they can divide up however they want, conservative talk radio insists that the size of the pie is not fixed, that it can be made larger with certain policies, and that when it’s made smaller by bad policies, all sorts of people are hurt, including those the left claims to be very concerned about,” McAdams said.

Brien Farley (brien.farley@gmail.com) writes from Genesee, Wisconsin.
Study Shows How Location Matters in Business Taxes

By Steve Stanek

Wyoming has the nation’s lowest business tax costs for established businesses and Pennsylvania the highest, according to a report by the Tax Foundation and KPMG LLP.

“Location Matters: A Comparative Analysis of State Tax Costs on Business” provides a guide for anyone making decisions about new manufacturing facilities, corporate headquarters relocations, or state government affairs. It’s also of interest to those who want to know whether their state’s tax policies encourage or discourage job growth. It highlights the sometimes-surprising differences in how different kinds of businesses are taxed within the same state.

“This was the most extensive look at business tax costs across the 50 states that’s ever been attempted,” said Tax Foundation President Scott Hodge.

‘Dramatic Disparities’ in Taxes

“Corporate taxes on the state level rarely treat all comers equally, leading to sometimes dramatic disparities in the cost of doing business,” said Hodge. “Tax preferences and incentive deals can distort the playing field based on how long a business has been operating, whether it’s a manufacturing or retail operation, or whether it’s moved from another state to set up shop.”

Distortions caused by taxes can be seen in the differences between mature and newly arrived businesses. Some states that have low average business tax burdens for new firms have high burdens for established firms, as if luring them in only to hit them hard later.

“We’ve found there’s tremendous variability in taxes across the country,” Hodge said. “I kind of liken it to buying a car. Everybody who walks out of the showroom seems to have paid a different price, depending on who they are, when they bought, and what kind of incentives they got. I think that’s the biggest shocker from the entire study. There’s great variability not only across the country, but within each state and between different kinds of firms.”

New vs. Established

He cited as an example Nebraska, which ranked number one with the lowest tax burden for new firms.

“What we saw there was, let’s say, a call center business. A mature call center would have an effective tax rate of around 20 percent, whereas a new call center would have an effective tax rate of about 1.1 percent because of the lavishness of the incentives that they have for new businesses. So if you’re a well-established business, you would pay 10 times the amount of taxes as would a new firm. We see that repeatedly across the country,” Hodge said.

The incentives, of course, provide a disincentive for businesses to plant roots firmly in a state.

Distortions also can be seen in tax burdens on different types of businesses within states.

In Minnesota, for instance, a capital-intensive business such as a steel factory would pay a tax rate of approximately 6 percent. A distribution or warehouse facility would have an effective tax rate of approximately 46 percent.

“Every day, ... a steel factory would pay a tax rate of approximately 6 percent. A distribution or warehouse facility would have an effective tax rate of approximately 46 percent.”

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In Minnesota, for instance, a capital-intensive business such as a steel factory would pay a tax rate of approximately 6 percent. A distribution or warehouse facility would have an effective tax rate of approximately 46 percent.

“Everyday Low Taxes”

“I mentioned that paying business taxes is a lot like buying a car, everybody pays a different price,” Hodge said. “The Wyomings and South Dakotas and Nevadas are more like CarMax. They have low taxes every day, and that attracts more customers. Those three states in particular do not have their own corporate income tax, and that really sets them apart from other states.”

The study models seven types of businesses in two cities in each of the 50 states and accounts for all business taxes: levies on corporate income, property, sales, unemployment insurance, capital stock, inventory, and gross receipts. Each firm was modeled twice in each state: once as a new firm eligible for tax incentives, and once as a mature firm ineligible for incentives.

“The ‘Location Matters’ report should provide companies with an easy-to-use reference that will help shape their overall location decisions,” said KPMG Principal W. Hartley Powell of the firm’s Global Location and Expansion Services practice. “The report offers a comprehensive calculation of real-world tax obligations by firm types for all 50 states, making it a useful tool as companies work through the complexities of maintaining existing operations and establishing new operations.”

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Illinois Agency Withholds $2.6 Million Payment for Home of Chicago Bears

By Sean Parnell

A state agency is withholding a $2.6 million payment to the Chicago Park District for improvements to the stadium where the Chicago Bears of the National Football League play.

The Chicago Park District owns Soldier Field, which 10 years ago received hundreds of millions of dollars in taxpayer-funded renovations. The Illinois Sports Facilities Authority (ISFA) board decided to hold up a scheduled payment to review its contract with the park district. The board apparently is bothered the authority must make payments for Soldier Field improvements but receives no revenue from Soldier Field events.

The ISFA, Chicago Park District, and office of Mayor Rahm Emanuel did not return requests for comment.

Cost Overruns for Bears

The Soldier Field renovations were pushed by then-mayor Richard M. Daley, who expressed concern the Bears would leave for another city or state if the stadium were not modernized. Initially expected to cost $600 million with $400 million in taxpayer support, cost overruns pushed the total to an estimated $690 million with $432 million in taxpayer funding, according to a Chicago Tribune analysis.

The taxpayers’ portion was supposed to be paid primarily by a 2 percent city hotel tax. Daley vowed in 2001 the hotel tax as well as annual subsidy payments of $5 million from both the city and state would be sufficient to pay off the bonds over 30 years, saying, “I remain absolutely confident that taxpayers are not at risk for any part of this project. If I had any doubts, I would not proceed.”

According to the 2010 financial statements of ISFA, more than $395 million is still owed on the bonds that were issued in 2001 to fund the renovation. Annual payments on principal are scheduled to grow modestly until 2026, when they are expected to quintuple.

Dubious Economic Benefits

Supporters of taxpayer subsidies for sports stadiums often claim economic benefits from such facilities. Proponents of a new Minneapolis-area stadium for the NFL’s Minnesota Vikings, which would cost as much as $1.2 billion with the majority funded by taxpayers, claim the facility would produce up to $1.4 billion in immediate benefits and $275 million in annual benefits.

That view of the benefits of stadium subsidies is not shared by most economists, however. In a 2008 review of economic research on stadium subsidies, Professors Dennis Coates and Brad R. Humphreys of the University of Maryland and University of Alberta, respectively, report, “The clear consensus among academic economists is that professional sports franchises and facilities generate no ‘tangible’ economic impacts in terms of income or job creation and are not, therefore, powerful instruments for fostering local economic development.”

“Stadiums are not catalysts for economic development,” said Allen R. Sanderson, a Heartland Institute policy advisor and professor of economics at the University of Chicago who has conducted extensive research on the economic impacts of sports stadiums and serves on the editorial board of the Journal of Sports Economics. “They represent poor investments for cities.”

Sean Parnell (sean@impactmanagement.com) is a Heartland Institute policy advisor who writes from Alexandria, Virginia.
Law Ends Stealth Unionization of Home Caregivers in Michigan

By Michael Jahr

Michigan’s 60,000 home health care aides are no longer deemed government employees, and thus cannot be forced into a government employee union and have dues withheld, as a result of legislation signed in April by Gov. Rick Snyder (R).

The next step is for the Michigan Department of Community Health to stop collecting the dues from Medicaid payments intended to assist developmentally disabled adults. The money is being diverted to the Service Employees International Union, said Patrick J. Wright, director of the Mackinac Center Legal Foundation (MCLF).

“Ending this lucrative charade is terrific news for Michigan’s home health care providers, who have seen nearly $30 million skimmed from their payments over the last six years.”

PATRICK J. WRIGHT, DIRECTOR 
MACKINAC CENTER LEGAL FOUNDATION

“Now that the law has been clarified, the dues skim must end,” he added.

No Real Employer

The dues-skimming arrangement was concocted during the administration of Gov. Jennifer Granholm (D).

An interlocal agreement between the Department of Community Health and the Tri-County Aging Consortium allowed for the creation of the Michigan Quality Community Care Council, which served as the “employer” for what were really self-employed independent contractors or, overwhelmingly, family members caring for loved ones.

Despite there being no real employer with which to engage in collective bargaining, the SEIU conducted a union representation vote in 2007. Of the 44,000 home health care providers in Michigan at the time, only 7,900 voted, and 6,900 cast ballots for the union. Many providers were unaware a vote was taking place. They nonetheless were forced into the union.

Government-sector unions recently proposed a constitutional amendment to circumvent the legislative fix and restore the flow of the “dues.” Wright notes the proposed amendment would violate the U.S. Constitution, because private employee unionization is purely a matter of federal law.

Third Victory Over Unions

The measure signed by Snyder in April marks the third time in 14 months an illegal unionization arrangement has been brought to an end. On March 1, 2011, Snyder issued an executive order ending the illegal dues confiscation affecting tens of thousands of home-based day care providers. The MCLF had fought an 18-month court battle on behalf of day care owners.

On March 13 of this year, Snyder signed a bill specifying graduate student research assistants are not government employees subject to forced unionization. The MCLF represented more than 370 students from the University of Michigan who objected to the illegal unionization effort.

Michael Jahr (jahr@mackinac.org) is vice president for communications at the Mackinac Center for Public Policy in Midland, Michigan.
By Steve Stanek

Chicagans are about to learn if Mayor Rahm Emanuel’s Chicago Infrastructure Trust is worthy of the name.

Forty-one of the city’s 50 aldermen voted for the $1.7 billion plan in late April even though the city’s inspector general, several aldermen, and neighborhood groups expressed doubts about trustworthiness before the vote. The plan had been introduced just a few weeks earlier and the amended version that was voted on just days earlier.

Emanuel says the trust is needed to fund badly needed projects including improvements to city streets, sewers, water lines, and parks. The idea is to bring in private investors to put up money for such projects. Emanuel expects up to $1.7 billion of investments could be funded through the trust.

“The Chicago Infrastructure Trust will bring additional resources to stimulate public and private investment in our infrastructure, create thousands of jobs for Chicagans, and ensure that our residents have a world-class quality of life.”

RAHM EMANUEL, MAYOR
CHICAGO, ILLINOIS

‘Nothing More Crucial’

“Nothing is more crucial to our long-term competitiveness and job creation than infrastructure,” Emanuel said in announcing the plan. “The Chicago Infrastructure Trust will bring additional resources to stimulate public and private investment in our infrastructure, create thousands of jobs for Chicagans, and ensure that our residents have a world-class quality of life.”

Emanuel has said the city cannot afford to add to the more than $7 billion of debt it already has to do major projects. He also does not want to raise city taxes. Emanuel said private financing for each project could be tailored to specific needs using taxable or tax-exempt debt, equity investments, grants, and other forms of support. Each project is supposed to pay back the trust and investors, raising concerns that city user fees for services such as sewer and water could climb.

Citibank, Citi Infrastructure Investors, Macquarie Infrastructure, JP Morgan Asset Management Infrastructure Investment Group, and union-backed insurer Ullico all signed letters in support of the fund. Local labor unions also backed the plan.

The trust would be operated by a board made up of private financiers and one alderman appointed by the mayor. It would not be considered a public body and therefore might not be subject to open meeting or freedom of information laws, according to Chicago Inspector General Joseph Ferguson.

‘Open, Undefined, Unspecified’

“This is a very, very open, undefined, unspecified, nonprocess-specific ordinance,” Ferguson said during an appearance on Chicago Public Television’s Chicago Tonight program the night before the vote.

“What we have ... is something that creates a great deal of ambiguity and almost inevitably is going to create confusion, legal disputes, and possibly even lawsuits,” said Ferguson. “With respect to the inspector general’s office itself, right now the city’s position is we can’t even defend our own jurisdiction, we can’t even enforce our own subpoenas.”

Chicagans have bitter memories of a rushed lease deal for 36,000 parking meters the city entered into in 2008 during the administration of Richard M. Daley. That lease with a Morgan Stanley-managed firm lasts 75 years and brought the city $1.16 billion in an upfront payment.

Almost immediately after Chicago Parking Meter LLC took over the meters, parking prices soared, and many meters did not work. Problems grew worse when frustrated motorists vandalized parking meters in protest. The problems have been fixed and animosity has died down, but critics say the city should have received more money from such a deal.

Groups on Guard

Amisha Patel, executive director of the Grassroots Collaborative of Chicago, made up of 11 organizations representing lower-income families in the Chicago region, said the experience with the parking meter lease has her and other members of the group on guard.

“There’s been lots of interest [in the infrastructure trust] because of the parking meters,” she said. “That experience is relevant. There was no need to rush this. They could have made this as tight and responsible as possible. Instead, everything the city has said has been so vague. We understand there’s a need for jobs, and for infrastructure, but let’s do it right. We need more clarity.”

Alderman Joe Moore rejected likening the trust to the parking meter lease. He opened discussion before the vote with a speech that lasted approximately 15 minutes in defense of the trust.

“The trust is not about the privatization of city assets,” Moore said. “This is not another parking meter deal.”

He closed saying, “As with any new and untried approach, there are risks and no guarantee of success, but the only thing worse than trying this new approach is to try nothing at all.”

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.
Ga. Simplifies Business Sales Taxes, Sees More Investment

By Christine Ries

Georgia is already seeing benefits from a tax reform bill Gov. Nathan Deal (R) signed into law in April. The new law provides a comprehensive modernization and streamlining of sales tax exemptions for businesses, particularly the mining, manufacturing, and agricultural industries. Deal said two big investments in Georgia can be attributed to this rationalization of sales taxes on business inputs.

The reforms “played a critical role ... in Georgia’s successful wooing of Caterpillar,” said Deal. Caterpillar, headquartered in Illinois, is the nation’s largest heavy-equipment manufacturer. The company is investing $200 million to move a tractor and excavator manufacturing plant from Japan to Georgia. The move is expected to create 1,400 jobs at the plant.

Two weeks later, Baxter Pharmaceuticals announced a $1 billion manufacturing investment that will create 1,800 skilled jobs in Georgia. Within that same period, at least four other companies completed arrangements to move to Georgia, adding approximately 700 new jobs. Officials at all those companies indicated failure to pass tax reform and bring clarity and consistency to the taxation of business inputs would have been a deal breaker.

Reform ‘Lite’

The Special Council for Tax Reform and Fairness for Georgians that legislators created recommended in 2011 a comprehensive set of pro-growth tax reforms centering on substantial cuts in Georgia’s 6 percent income tax rate. Legislators last year rejected the income tax rate cut and comprehensive pro-growth tax reform.

This year, a clever assemblage of politically attractive components—but less comprehensive than the 2011 recommendations—passed with strong bipartisan support.

Supporters argued this year’s tax reform bill would help families, attract companies to invest in Georgia, and improve the competitiveness of businesses already in the state. The pieces were assembled so that fiscal scoring showed the law as an overall tax cut.

Even supporters of the reforms have been surprised at the almost immediate effect on economic growth and job creation from a law that did not cut income tax rates.

Clarity, Transparency, Simplicity

The pro-business and competitiveness parts of the new law are based on the principles that taxes should not be imposed on business inputs and the tax code should be clear, transparent, and simple.

Georgia’s tax code evolved over the decades to improve competitiveness in selected industries. In nearly all cases, those amendments successively exempted production inputs from sales tax in key industries. The tax code had become a patchwork of specific rules for business inputs that would or would not be exempt from the state’s 6 to 8 percent sales taxes. Until April, that code still contained a reference to steel-wheeled tractor tires. Energy to heat chicken houses was exempted or not depending on whether the heat came from electricity or natural gas.

The outmoded codes were draining manufacturing jobs from the state, and the new law is intended to reverse that, condensing hundreds of code items into a few. These few basically exempt from sales taxes items used in the business of mining, manufacturing, and agriculture. Particularly important is the elimination of tax on energy used in manufacturing production.

As a result of the reforms, the owner of a small business who provides plants to hotels and office buildings in Atlanta will no longer have to keep 17 different tax exemption certificates updated annually in each of her suppliers’ files. She will have one certificate, laminated, and in her wallet.

Pro-Growth Simplicity

The lesson is that reform that cuts red tape and reduces the cost of tax compliance is very much “pro-growth.”

Last year, when Georgia tried to reduce income tax rates, there was no direct proof of how much growth would be stimulated by lower rates. Next year, policymakers will have direct evidence of the sensitivity of business formation to changes in the tax code. The state also will have more employment and higher tax revenues.

Those Georgians who want the state to join the “no income tax club” are seeing this year’s “reform lite” as one of the best warm-up acts we could have designed.

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