Lawmakers Call for Abolishing ‘Corruption-Infested’ Pennsylvania Turnpike

By Melissa Daniels

Pennsylvania has two transportation agencies. One controls more than 40,000 miles of state roads and 25,000 bridges, and another maintains 545 miles of tolled highway.

The former has seven executives, one for every 5,857 miles of roadway; the latter has nine executives, one for every 60 miles of roadway.

For a group of Republican legislators, this doesn’t add up, especially when one of those agencies was the subject of a 44-month-long grand jury investigation over alleged bid-rigging.

Standing alongside a dozen other GOP lawmakers, state Rep. Donna Oberlander (R-Clarion) introduced legislation in mid-April to abolish the “corruption-infested” Pennsylvania Turnpike. Oberlander believes that PennDOT is uniquely qualified and more than capable of handling the additional 545 miles of turnpike roadway and bridges.”

DONNA OBERLANDER
STATE REPRESENTATIVE
CLARION, PENNSYLVANIA
IRS Scandal Sparks Calls for Delaying Obamacare

Continued from page 1

erly obtained millions of personal health records. This raises more concerns about the Patient Protection and Affordable Care Act, popularly known as Obamacare, because the IRS has a big role to play in its implementation and enforcement.

“Even the appearance of playing partisan politics with the tax code is about as constitutionally troubling as it gets. With the recent push to grant federal agencies broad new powers to mandate donor disclosure for advocacy groups on both the left and the right, there must be clear checks in place to prevent this from ever happening again,” said the American Civil Liberties Union in a statement.

“The American people deserve to know what actions will be taken to ensure those who made these policy decisions at the IRS are being held accountable and that your Administration comply with all requests related to Congressional inquiries without any delay, including making available all IRS employees involved in designing and implementing these prohibited political screenings, so that the public has a full accounting of these actions.”

Stonewalling on Identities

The Obama administration so far has declined to identify anyone directly connected to the activities.

Acting IRS Commissioner Steven Miller was forced to resign, then testified before members of the House Ways and Means Committee. He objected to their use of the word “targeting” to describe the IRS’s treatment of organizations—a word that was used more than one dozen times in an IRS inspector general’s report on the IRS activities—and said such conduct was “absolutely not illegal.”

Organizations with “Tea Party,” “Patriot,” or other names indicating a conservative, libertarian, or limited-government bent that were seeking tax-exempt status were often harassed with intrusive demands for information that included names of donors, personal Facebook and Twitter accounts, prayers people in the groups might be saying, and books people in the groups might be reading. Some groups were forced to wait two years or more for an IRS decision. Others gave up out of frustration.

Meanwhile, USA Today and other organizations reported they had obtained documents showing the IRS often fast-tracked for tax-exempt approval groups likely to be friendly to the Obama administration or its political objectives.

Staged Revelation

The story first made news after the IRS’s Lois Lerner, director of the agency’s tax-exempt organizations section, answered a question during a presentation at a meeting of the American Bar Association. Later, the IRS was forced to admit the questioner was a plant and the question was set up in advance to get out front of the inspector’s report on the agency’s targeting of certain groups. The IRS also has been forced to admit the targeting was much more widespread than Lerner said.

Further embarrassment for the IRS hit when Courthouse News reported a class action lawsuit against the IRS.

“This is an action involving the corruption and abuse of power by several Internal Revenue Service (IRS) agents (collectively referred to as ‘Defendants’ herein) during a raid of John Doe Company, in the southern district of California,” the complaint, quoted by Courthouse News, reads. “In a case involving solely a tax matter involving a former employee of the company, these agents stole more than 60,000,000 medical records of more than 10,000,000 Americans, including at least 1,000,000 Californians.”

Backlash Against Obamacare

The scandal has brought out bipartisan calls for a special prosecutor to investigate the allegations against the IRS as well as calls for delaying or repealing full implementation of Obamacare, which is scheduled to happen in 2014.

“The power in our health care system should belong to patients and their families, not politicians—and certainly not the tax man,” Rep. Andy Harris of Maryland said in mid-May in the Republican Party’s weekly radio address as the scandal was heating up.

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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.
Pa. Lawmakers: Abolish Turnpike

Continued from page 1

pike Commission and fold the route’s operation and tolling into the Pennsylvania Department of Transportation.

“Uniquely Qualified”
“I believe that PennDOT is uniquely qualified and more than capable of handling the additional 545 miles of turnpike roadway and bridges,” she said.

Oberlander said it’s redundant for taxpayers to foot two bills for the agencies and the legislation would cut down on government bureaucracy.

House Bill 1197 would create a Bureau of Toll Administration within PennDOT to manage turnpike tolling. The state would honor all collective bargaining agreements with union employees, though the commission itself would be eliminated.

$8 Billion Debt
Oberlander said the biggest challenge is how to handle the financing, as the turnpike carries more than $8 billion in outstanding debt. She could not comment on the effects of taking on that debt as it relates to the commonwealth’s own financing or bond rating. It will be part of the discussion, she said.

The bill would create a five-person commission in charge of determining how to pay, and eventually retire, the debt. Members would include the governor, the state treasurer, the state auditor general, the speaker of the House, and the Senate president pro tempore.

Oberlander’s legislation has nearly three dozen co-sponsors.

State Rep. Mike Vereb (R-Montgomery) said the turnpike is “a tumor beyond radiation,” adding that it’s up to the General Assembly to make the grand jury report things of the past.

“We call it corruption. Back home, it’s called organized crime,” Vereb said.

Potential Savings
Vereb introduced a similar proposal in December 2009 but it didn’t get far. Consolidation at that time would have resulted in anywhere from $300 million to $400 million in savings for the commonwealth, Vereb said, and present savings could be more.

He also said taxpayers are already responsible for the turnpike’s debt. “Taxpayers and toll payers are going to end up paying the debt no matter what,” he said. “So why not, when you’re paying down the debt, know this is never going to happen again?”

Carl DeFebo, spokesman for the turnpike commission, said the agency has no position on the proposal and is rehabbing its business practices because of the grand jury report.

Cleanup Defense
“It’s a fact that the Turnpike began to improve business practices years before these accusations were brought to light,” DeFebo said in a statement, “and Turnpike CEO Mark Compton launched even more aggressive reforms in the wake of the investigation to improve accountability and operations.”

That includes evaluating the procurement process, reviewing past contracts, and enforcing an employee code of conduct.

DeFebo also said PennDOT and the commission are working closer than ever. The “Mapping the Future” partnership already has the agencies sharing services, such as design standards, training initiatives, and inspection services.

Melissa Daniels (melissa@pa independent.com) reports for the Pennsylvania Independent. Used with permission of PAIndependent.com.

IN OTHER WORDS ...

“Daniel Werfel, whom President Obama tapped on Thursday [May 16] to lead the Internal Revenue Service, has a record of shaking up stolid federal bureaucracies. When he gets to his new agency, he shouldn’t hold back.

“If a new Treasury Department inspector general report and a Friday House hearing are any indication, the IRS doesn’t just need a shake-up—it requires a veritable earthquake of reform. That’s clear enough even though there are still plenty of unanswered questions for the various investigations now underway.

“The origins of the IRS’s practice of targeting tea party-type groups applying for 501(c)(4) tax-exempt status are still murky. ...”

“Among the many investigations getting started, the Justice Department is beginning a criminal probe. More important than criminal convictions, however, is that investigators in the Obama administration and in Congress get answers, that the IRS sees genuine reform, and that those who betrayed the public trust—willingly or not—are removed from positions in which they could repeat their errors.”

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Audit Slams Wisconsin Economic Development Corp.

By Ryan Ekvall

Another audit, another finding of incompetence and waste at Wisconsin’s top jobs agency.

The operation at the Wisconsin Economic Development Corp. apparently is so muddled that the Legislative Audit Bureau could not adequately “assess the effectiveness of WEDC’s economic development programs.”

The bureau’s audit, released May 1, “did not contain all the required information, contained some inaccurate information and did not clearly present information about the number of jobs created and retained as a result of its programs.”

Auditors found it “difficult to assess the accuracy and completeness of the number of jobs that WEDC reported” because WEDC did not independently verify the information submitted by the companies that took WEDC cash or tax credits. Nor did WEDC follow up on the 55 percent of contractually required progress reports that were never submitted.

WEDC also reported information to the public that didn’t jibe with internal results.

The audit found internal WEDC documents show no jobs created or retained as a result of Community Development Block Grant awards, whereas WEDC’s report indicated 302 jobs created and $200,000 apiece. The auditors noted those fees would have totaled $77,300, making the total amount of the loans nearly $3.9 million.

Another loan for $500,000 was contractually not secured by any assets, contrary to WEDC’s internal policy. When the balance came due a year later, the loan recipient couldn’t pay, so WEDC extended the contract another year.

Twelve of 14 recipients of grants or loans of more than $100,000 that had occurred before the contracts were executed.

Other problems included $34,000 in Texas.

Multiple Policy Violations
Other problems included $34,000 granted to a business in the hospitality industry, against WEDC internal policy. Unless a significant number of jobs are involved, WEDC doesn’t incentivize the hospitality industry. The funds were used for new employee orientation, also against WEDC policy. Half of the jobs created paid less than 150 percent of the federal poverty level. That too is against WEDC policy.

As a result of the audit, John Gillespie, spokesman at WEDC, pointed back at the audit. WEDC CEO Reed Hall in a written response to the audit said WEDC respects the findings “with the recognition that WEDC has made significant progress in addressing operational shortcomings.”

“The vast majority of issues raised by LAB have already been identified by WEDC and other parties, and substantive solutions are already in place or are in the process of being implemented,” Hall said.

Among other notes, the audit found $1.109 spent from three transactions for rooms rented in Madison for unspecified meetings. Taxpayers spent $1.789 for six season tickets to UW-Madison football games. One WEDC staff member made $208 worth of long-distance calls over a two-day period at a hotel in Texas.

WEDC appears to have been embroiled in controversy since its inception.

The economic development organization, the creation of Gov. Scott Walker (R) and majority Republicans in the legislature in 2011 to replace the state Department of Commerce, had previously lost track of tens of millions of dollars’ worth of loans, including $12 million in past-due loans.

“As I read page after page and problem after problem … there’s not consistency or uniformity when [the Wisconsin Economic Development Corporation is] awarding grants and tax credits, and as a taxpayer and a legislator I’m very frustrated.”

Samantha Kerkman
State Representative
Randall, Wisconsin

By Ryan Ekvall

The Joint Legislative Audit Committee, called for a public hearing May 9.

“As I read page after page and problem after problem ... there’s not consistency or uniformity when they are awarding grants and tax credits, and as a taxpayer and a legislator I’m very frustrated.” Kerkman said.

“Money the state is giving out to create and retain jobs is not being used wisely. It’s been one of those days where you take a lot of deep breaths,” she said.

In its report, the audit bureau makes recommendations that presumably would seem apparent to a taxpayer-funded agency that granted more than $500 million in awards—including bonds, grants, loan, and tax credits—in 2011–12:

• Tax credits should be allocated only to eligible recipients, for eligible projects, and for amounts allowed by WEDC’s program policies.
• WEDC should manage and oversee its contracts appropriately, including by ensuring that the contracts contain all provisions required by program policies.
• WEDC should ensure that it does not allocate tax credits for economic development projects that had occurred before the contracts were executed.

No Fulfillment, No Problem
Where businesses rewarded with taxpayer dollars didn’t perform their contractual obligations, such as creating jobs or training employees, auditors noted, “WEDC indicated to us that it typically does not (recoup awards) because recouping awarded funds may impede economic development and job growth.”

One $2.5 million contract through the Jobs Tax Credit program did not require a business to create any jobs.

The audit found WEDC waived a required 2 percent origination fee on six of 10 loan contracts for more than $1,109 spent from three transactions for rooms rented in Madison for unspecified meetings. Taxpayers spent $1.789 for six season tickets to UW-Madison football games. One WEDC staff member made $208 worth of long-distance calls over a two-day period at a hotel in Texas.

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Ryan Ekvall (rekvall@wisconsinreporter.com) writes for Wisconsin-Reporter.com, where a version of this article first appeared. Used with permission.
Internet Tax Bill Fight Moves from Senate to House

By Steve Stanek

Now that the United States Senate has voted 69–27 to allow states to compel online retailers to collect sales tax even when they have no physical presence in a state where a shopper is located, will we see pushback strengthen?

The bill moves to the U.S. House of Representatives, where politicians expect a tougher fight. Lobbyists including former lawmakers and governors have been hired by supporters of the bill to push it to victory and into law. President Barack Obama has declared his support for the measure.

The Marketplace Fairness Act has the support of some of the nation’s largest retailers. Online giant Amazon.com backs it as do many traditional bricks-and-mortar retailers including the world’s largest, Walmart. Smaller bricks-and-mortar retailers also support the bill, arguing it is unfair they must charge sales tax on all their sales while online and catalog retailers must charge sales tax only on sales that originate in states where they have a physical presence.

That difference stems from a 1992 U.S. Supreme Court ruling that held states have no power to force out-of-state retailers to collect sales tax unless the retailer has a “nexus,” or physical presence, in the state, such as a store, warehouse, or other assets.

‘One Giant Step’

“Senate passage of the Marketplace Fairness Act puts us one giant step closer to a level playing field for America’s Main Street retailers,” said former Small Business Administrator Hector Barreto in a statement. “This legislation ends the discriminatory practice of treating retailers differently just because one sells on Main Street and the other sells over the Internet. Small businesses across America are not asking for preferential treatment from the federal government, just an honest chance to compete fairly without their competition having an artificial advantage.”

Opponents of the bill see major problems with it, not the least of which is what they say is its unfairness.

“Please save us from a government looking to legislate ‘fairness.’ The Marketplace Fairness Act would be ‘fair’ only if bricks-and-mortar stores had to do what governments want online merchants to do: Ask every customer where they live and determine, calculate, and collect the relevant state, local, and municipal taxes,” said Seton Motley, editor-in-chief of StopNetRegulation.org.

“This is taxation without representation on stilts,” he said. “The Marketplace Fairness Act would allow nearly 10,000 governments to abuse businesses—with no recourse for businesses because they don’t live in the relevant jurisdictions and can’t vote to oust the abusers. Governments need to stop looking for ever more revenue streams—and instead just stop spending.”

$23 Billion More

Supporters estimate the bill would send another $23 billion annually to states and local governments. That would mean shoppers would have $23 billion less money to spend, which could reduce sales and the amount of sales tax revenue that actually would be collected.

“The proposed law has nothing whatsoever to do with ‘fairness’ and everything to do with rooting under, around, and beyond the public trough for additional revenues to fund state governments grown morbidly obese with profligate spending,” said Bruce Edward Walker, a long-time writer on technology issues and a telecom policy advisor at The Heartland Institute, which publishes Budget & Tax News.

“The Marketplace Fairness Act would do nothing to level the playing field for Internet retailers and bricks-and-mortar because both players possess different strengths and weaknesses that savvy consumers know all too well,” Walker said. “If MFA becomes law, these customers will incur the brunt of the much higher prices brought about by increased costs to Internet retailers forced to collect and remit sales taxes for an estimated 9,600 different U.S. tax jurisdictions, while continuing to pay shipping charges they currently avoid at physical retail locations.”

“If the new law kept states from raising income taxes, which are more economically distorting than sales taxes, an Internet sales tax might be worthwhile. But the proposed legislation does nothing to preclude state governments from charging higher income tax rates even after they collect the added Internet sales tax. In other words, this is just a recipe for Americans to pay higher taxes,” wrote Scott Shane, professor of entrepreneurial studies at Case Western Reserve University, for Entrepreneur magazine.

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.
Online ‘Marketplace Fairness Act’ Could Tax 401(k)s

By John Berlau

The U.S. Senate recently passed the Marketplace Fairness Act, which would force online retailers to collect sales taxes for states in which purchasers reside.

Most have heard how this will hit us when we purchase goods over the Internet. But a lesser-known problem is the legislation also would enable states to levy new taxes on 401(k) plans and other savings vehicles.

How? The bill authorizes states to “require all sellers not qualifying for the small seller exception [$1 million in sales or less] to collect and remit sales and use taxes with respect to remote sales sourced to that Member State.”

No Definitions or Exemptions

“Sellers” and “sales” are never specifically defined, and there are no specific exemptions for certain types of products or services. Financial experts say this means states may tax “sales” such as stock trades in a mutual fund or brokerage account, or even contributions to pension plans such as 401(k)s that were designed to be tax-free until retirement.

The American Society of Pension Professionals and Actuaries, a group of more than 11,000 retirement plan and benefits professionals, warns the bill “would allow states to impose a financial transaction tax that would apply to American workers’ 401(k) contributions and other transactions within workers’ accounts.” The group notes “over 70 million workers could be affected” by such taxes, which “could significantly reduce workers’ savings over time, threatening their retirement security.” The group calls for “a clear exception” for transactions within a 401(k) account.

This is not the only financial service the bill could enable states to tax, experts say. Grover Norquist of Americans for Tax Reform asks in a letter to Sen. Mike Enzi (R-WY), a chief GOP proponent of the legislation, “Will financial products that are sold over the Internet, such as portfolio management services, credit reporting service apps, or insurance service, fall under MFA taxation authority?”

Taxes on Stock Transactions

The Securities Industry and Financial Markets Association (SIFMA), representing securities firms and asset managers, issued a statement urging hearings on the MFA’s impact on financial services. As written, “the bill could lead to unexpected costs being passed on to consumers of financial services, including sales taxes on services or state-level stock transaction taxes,” the group said.

Similarly, the Financial Services Roundtable, which represents banks, insurance companies, and brokerage firms, states these concerns: “A transaction tax on financial services products will hurt retail investors, retired Americans, and small businesses, effectively making it more expensive for them to invest and plan for the long-term. Without hearings, these implications and others will not be properly addressed.” These potential scenarios, taken seriously by financial policy experts, illustrate the inherent problem of the bill. Forcing a business without any physical presence in a state to tax that state’s consumers is taxation without representation. As my colleague Jessica Melugin of the Competitive Enterprise Institute, has written, “This bill would undermine that federalist principle by allowing one state to reach into the borders of another and tax businesses that have no political voice in the taxing state.”

Encroachments of Other States

As Melugin concludes in a Washington Times op-ed, state sovereignty does not just mean protection from the interference of the federal government. It also means freedom from encroachment of other states.

“[The Marketplace Fairness Act] would allow states to impose a financial transaction tax that would apply to American workers’ 401(k) contributions and other transactions within workers’ accounts.”

Wisconsin Gov. Scott Walker says he will use additional revenue it might receive from Internet sales taxes to cut the state’s income tax.

I want to make clear, should federal Marketplace legislation become law, my intention would be for any resulting additional revenue be used to provide individual income tax relief for Wisconsin’s taxpayers,” Walker (R) wrote in a letter to lawmakers dated May 15.

Walker was referring to the Marketplace Fairness Act, which has passed the U.S. Senate and is awaiting action in the U.S. House. The bill would allow states to force online and catalog retailers to collect sales tax on every purchase, even when a buyer is from a state where the retailer has no physical presence. The sales tax would be based on where the buyer is located.

Currently, online and catalog retailers must collect tax only from customers in states where they have a physical presence. Traditional retailers say this is unfair because they must collect tax on every sale. However, they collect tax based on where their stores are located, not on where their shoppers are from. Online and catalog retailers would have to comply with nearly 10,000 sales tax jurisdictions.

The Ohio House already has passed a bill that includes language to reduce that state’s income tax automatically if the state receives additional revenue from Internet sales taxation.

— Steve Stanek

Wisconsin Gov. Walker Says to Cut Income Tax if Internet Sales Tax Passes

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— Steve Stanek
COMMENTARY

Delta Project: California’s Latest Environmental Boondoggle

By Steven Greenhut

In Dostoevsky’s The Brothers Karamazov, a priest recalls the words of a man who confessed: “The more I love mankind in general, the less I love people in particular.”

We can all think of people like that—folks of varied political persuasions who rally to “save” humanity but become so consumed by their cause that they lose patience for the individuals they ostensibly are trying to help.

Judging by Gov. Jerry Brown’s latest plan to “save” the Sacramento-San Joaquin Delta, he appears to suffer from a variant of the same condition. California’s Green Governor loves the Earth in general but doesn’t seem to care about particular earthly environments.

Throughout his political career, Brown (D) has championed grand Earth-saving projects such as AB 32, the state’s first-in-the-nation cap-and-trade system designed to prod the world into cutting the carbon dioxide emissions that supposedly lead to global warming. He is pushing a high-speed-rail system to lure people out of their automobiles. He speaks often about his commitment to the environment.

Yet I wonder whether the governor has ever taken the short trip from the capitol to one of California’s ecological treasures. As it comes down from the mountains and heads toward the San Francisco Bay, the bulk of the state’s water passes through the Sacramento-San Joaquin Delta. It is a land of marshes, islands, charming small towns, Victorian mansions, and orchards interspersed between 1,000 miles of waterways.

Water Diversions Kill Smelt

The delta also is Ground Zero for ongoing fights over the state’s water supplies. Judges have routinely stopped the water flows out of the delta, toward the dry but agriculturally rich San Joaquin Valley and toward Southern California’s massive metropolises, to help a tiny endangered baitfish known as the Delta Smelt. The smelt is viewed as the canary in a coal mine—a bellwether for the ecological health of the waterways.

Millions of smelt are killed each year as they get caught in the giant pumps near Tracy, near the south end of the delta. Environmentalists also express concerns about the level of saltwater that moves inland from the Pacific Ocean.

This tiny, tranquil region is about to undergo dramatic, government-imposed changes that threaten its beauty and way of life. The governor’s plan is touted by Southern California water agencies and farmers alike who view it as a means to assure more consistent water supplies.

I’m a believer in providing water to thirsty farmers and thirsty cities. But the Bay Delta Conservation Plan won’t necessarily increase the flow of water, according to the first parts of the plan, which recently has been released to the public.

The plan would start a decade-long construction project to build two massive tunnels to bypass the current river system. At a cost estimated as high as $39 billion before the usual government-project overruns, the tunnels would move water supplies under the delta and thereby decrease the current reliance on the aging, earthquake-prone levees.

Taxes Address Regulations

The plan has two equal goals: restore the delta ecosystem and improve water reliability. It won’t increase water flows, but by resolving the Delta Smelt issue it will end the court-ordered water stoppages—at least in theory.

Here, the administration proposes the use of tax dollars and massive engineering feats to solve a legal and regulatory problem. This is a poor use of resources, especially in a state that still is largely broke and already faces some of the biggest debt and tax burdens in the nation.

What are the chances that once the smelt issue is fixed environmentalists won’t find another reason to sue to stop the water flows given that the water flows are the source of the real dispute?

The administration’s plan will tear up the delta for at least 10 years. We know how government infrastructure projects are always delayed, so it’s anyone’s guess how long it actually will take. Even its advocates admit they aren’t sure about the unintended consequences of the project.

As part of its ecosystem restoration program, this boondoggle will flood a large portion of the delta’s land, destroying vineyards, farmland, orchards, and marshes. It will submerge islands. There will be land confiscations.

Environmental groups believe the re-engineering of the ecosystem will destroy salmon and other fish habitats. No one in their right mind would hand over a precious region such as this to bureaucrats, but in Sacramento these days the Brown administration is trying to relive the glory days of the New Deal where central planning and big spending are the in thing.

Free Marketeers, Environmentalists Aligned

Here’s a case where free-market advocates such as myself and true environmentalists should make common cause— to stop a misguided project that will raise water rates and increase the state’s debt load to provide limited and questionable gains. There are better, cheaper, and more reasonable ways to increase water supplies, tend to a damaged ecosystem, and shore up the levees.

I don’t expect this governor to worry much about debt spending, tax burdens, and that sort of thing. But perhaps he might take a trip through the meandering waterways and charming small towns of the delta where he can learn that one shouldn’t save the environment in general by sacrificing an environment in the process.

Steven Greenhut (sgreenhut@calwatchdog.org) is vice president of journalism at the Franklin Center for Government and Public Integrity. Used with permission of Watchdog.org.
Despite a Republican filibuster attempt in the state Senate, the Maryland General Assembly has passed legislation that would implement a stormwater pollution fee to raise revenue to clean up the Chesapeake Bay.

Approved by the Senate and House of Delegates minutes before the end of the legislative session, House Bill 987 requires nine counties and Baltimore City to establish a watershed protection and restoration program.

Senate Republican Leader E.J. Pipkin (R-Cecil) proposed 12 amendments, none of which was adopted. Pipkin said the bill was essentially an attempt to tax rainwater.

Locals to Impose Fees
Local governments would charge property owners a fee based on the amount of pavement on their property. The amount of the fee would be determined by the local government.

Counties and municipalities would take various steps, such as planting trees, to reduce watershed pollution caused by stormwater runoff.

The bill was sponsored by Del. Tom Hucker (D-Montgomery). Its survival was questionable as it became bogged down in the Senate. Debate on the bill was delayed several times as the Senate considered various conference committee reports on the budget package.

Critics Call it $6 Billion Tax
Republicans, who have labeled the bill a $6 billion tax on counties based on the projected funding needed over 13 years, launched prolonged debate of the bill by proposing a number of unfriendly amendments.

State Sen. Paul Pinsky (D-Prince George's) argued Republicans should like the bill, noting it gave power back to the counties to determine the fee and held them responsible for pollution caused at the local level.

Democrats broke the filibuster by approving a motion to limit floor debate to 20 minutes per side. The chamber approved the bill 33–14 to applause from the gallery, which was quickly stifled by Senate President Mike Miller (D-Calvert), who was eager to move on to other issues on the agenda.

Government Excludes Government
Although Republicans were unsuccessful in their attempts to amend the bill, an amendment proposed by state Sen. Jamie Raskin (D-Montgomery) was adopted by the Senate. Raskin's amendment excluded properties owned by state or local governments and volunteer fire departments from being subject to the fee. Raskin argued the amendment was part of the "public-private principle" and that it did not make sense for the government to tax itself.

With only 20 minutes remaining before adjournment, the amended bill was sent to the House, which approved the legislation 91–45. Gov. Martin O'Malley (D) is expected to sign the legislation into law.

Justin Snow (justin@marylandreporter.com) reports for MarylandReporter.com. Used with permission.
By Randolph J. May

In mid-April Google went shopping at a dollar store—and came away with a fiber system.

According to the April 18 Associated Press: “Google Inc. will pay $1 for a municipal fiber-optic system that cost $39 million to build, according to terms of the Internet company’s agreement with Provo.”

That’s Provo, Utah.

The Provo acquisition looks like a good deal for cash-rich Google, which, by the way, said also in mid-April that it earned $3.3 billion during the first three months of this year. According to the AP: “Even as Google takes ownership of the municipal network, Provo will have to pay off loans for its construction for another dozen years, according to agreements released ... by city officials.”

In exchange for Provo selling its city-owned fiber network for $1.00, Provo’s citizens will get upgrades to the current system and, supposedly, offers to subscribe to high-speed broadband services at reasonable rates. In the case of slower, basic service (5/1 Mbps), after payment of a $30 installation charge, the service will be free for a number of years.

Many Troubled Histories

I have written in the past about the highly problematic nature of government-owned municipal telecom networks. In “Observing Troubled Government Telecom Systems,” I chronicled the troubled history of some of these systems. The Provo municipal system is just one more example among many. The Provo officials said the Google deal was a good one for the city “because the system hasn’t been able to support itself.”

Of course, there are lessons here to be learned. Foremost, as I said in the “Observing” piece:

“Governments should not enter the telecom marketplace with government-owned systems when private-sector providers, with their own capital at risk, are willing to provide service. With the government systems’ financial backing and subsidies from taxpayers—even if such backing and subsidies often are extracted unwittingly—along with various special privileges and benefits, it is exceedingly difficult for private-sector companies to compete on an equitable basis with government providers.”

Privileged Perks

But with Google entering the local broadband marketplace in a few carefully selected cities, there is another important lesson as well. Just as private-sector providers should not have to compete against government-owned providers—with their tax subsidies and other special privileges—so too should private providers not have to compete against other private firms like Google that are beneficiaries of government-conferring privileges.

When Google announced it was entering the Kansas City, Missouri market with its high-speed fiber service, in that case in competition with Time Warner Cable, it became evident that Google would be granted, as inducements, an array of special privileges and benefits extended by the city government.

According to compilations from various press reports, here is a list of some of the special privileges:

• Free space in city facilities for installation of central office equipment and for additional network facilities.
• Free power for network equipment at city locations.
• Free access to city “assets and infrastructure,” including conduit, fiber, poles, rack space, nodes, buildings, facilities, and land.
• Right to build out only to neighborhoods demonstrating high demand for the service through pre-registrations.
• Right to terminate the agreement for convenience at any time up to two years after actual construction commences on the fiber network.
• Ability to build “fiber huts,” which are small buildings that house equipment, on city land at no cost.
• Waiver of city permit and inspection fees.
• Lower pole attachment rates than Time Warner Cable was paying.
• Cooperation from city in efforts to allow Google to gain access to poles and rights-of-way owned or controlled by third parties.
• Cooperation from city to obtain settlement-free interconnections with anchor institutions in city that have existing fiber and/or network connections.
• Access to rights-of-way on property owned by city.
• Regular (at least weekly) status meetings between city officials and Google for coordination of all matters relating to the project.
• City approval of all applications and documents within five days.
• Marketing support and education programs regarding the network, including direct mailings and community meetings.

I cannot vouch for the accuracy of the reports regarding each of the above privileges and benefits, but for my purposes here that is not necessary. The point is that municipal governments, whether in Kansas City, Austin, Provo, or wherever, should not offer one private-sector provider government-conferring benefits that are not available on the same terms to other private competitors.

Leveling Playing Field

While I am not certain of this, it is my understanding Kansas City may now have agreed to make the same terms available to Time Warner Cable and others as it is making available to Google. And press reports indicate Austin appears prepared to treat all private providers the same regarding city-conferring inducements.

I certainly am not opposed to Google entering the broadband marketplace in selected localities as long as the company does not receive special government-conferring privileges and benefits that are not available to its private-sector competitors. Of course, this point applies not only with respect to local and state government-conferring benefits, but to any special privileges conferred at the federal level as well.

More private-sector competition is a good thing. What is decidedly not a good thing is for more governments to enter the telecom business with their own networks.

Randolph J. May (rmay@freestatefoundation.org) is president of The Free State Foundation in Potomac, Maryland. Used with permission of FreeStateFoundation.org.
President’s Proposal to Privatize the TVA Gets Mixed Response

By Matthew Glans

President Barack Obama wants to privatize one of the nation’s largest government-owned companies, a proposal that is bringing pushback from some unlikely sources: politicians who ordinarily promote themselves as favoring smaller government and more free enterprise.

In his 2014 budget, Obama called for a strategic review of the Tennessee Valley Authority (TVA). The budget document stated that selling or privatizing the TVA could result in a significant cut in the federal debt, at least $25 billion, and “put the nation on a sustainable fiscal path.”

Born during the Great Depression of the 1930s as part of President Franklin Roosevelt’s New Deal, the TVA is a federally owned corporation created to provide electricity, navigation improvements, flood control, and economic development in the Tennessee Valley, an area particularly hard hit during the Depression. The TVA’s service area covers nearly all of Tennessee and portions of Alabama, Georgia, Kentucky, Mississippi, North Carolina, and Virginia.

Mixed Response, Even in Tennessee

The initial response to the privatization proposal has been mixed, with some local Republican leaders coming out against the plan.

“This is one more bad idea in a budget full of bad ideas,” said Tennessee Sen. Lamar Alexander (R) in a statement. “There is today no federal taxpayer subsidy for TVA, period. There is by law no federal taxpayer liability for TVA debt. And after deducting its debt, selling TVA would probably cost taxpayers money.”

The Chattanooga Times Free Press declared in an editorial that opposing TVA privatization is a mistake and noted the disconnect between some Tennessee politicians who declare they favor free enterprise and limited government yet oppose privatization.

“The only real argument for keeping the TVA’s assets in government hands are weak arguments like, ‘people like the TVA how it is’ and ‘that’s how we’ve always done it.’ Sadly, that stale mindset has overtaken area Republican lawmakers who claim to oppose government control and socialist programs,” the newspaper’s editors wrote.

Little Chance of Happening

Privatization expert Leonard Gilroy of Reason Foundation said he sees lots of institutional opposition to privatization. “Despite being an utterly nonessential federal asset, there appears to be no political will in Congress whatsoever to authorize a TVA privatization.”

LEONARD GILROY
REASON FOUNDATION

“Despite being an utterly nonessential federal asset, there appears to be no political will in Congress whatsoever to authorize a TVA privatization.”

Monopoly Power, High Debt

The TVA is the primary provider of electricity in the markets it serves and has developed a strong monopoly in those areas. Despite its market dominance, the TVA has developed serious debt issues. In the 2012 fiscal year the TVA recognized only $60 million in net income off operating revenues of more than $11 billion while its debt grew to $24 billion, just short of its statutory cap of $30 billion.

Exemptions, Protections

The TVA has several statutory protections that give it advantages other businesses do not have. The TVA has been exempted from scores of federal laws, including several covering hydroelectric power. In addition, the TVA has greater control over its electric rates than do other power companies, being mostly exempt from oversight by the Federal Energy Regulatory Commission.

The TVA’s chief executive officer, Bill Johnson, told Ken Wells of Bloomberg News the authority receives no direct federal funding and that being forced to justify its existence was “unexpected.”

“But we are a creation of the government and this is within the owner’s prerogative,” Johnson said. “And actually, in the private world you do this all the time. It’s not a surprising idea to justify our existence by demonstrating the value we create every day.”

While the TVA no longer receives direct taxpayer-funded subsidies, it is exempt from federal, state, and local taxes that private businesses must pay.

The Washington Post argued in an editorial “the TVA has long since accomplished its original purposes of economic development and rural electrification. Nowadays, the cheap power the TVA provides may help Southern states compete with others for business investment, but it’s unclear why that’s a legitimate federal goal. Yes, the TVA covers its costs through power sales and borrowings, not federal outlays. But it can do that only because its unique federal connection enables it to borrow at favorable rates.”

Matthew Glans (mglans@heartland.org) is senior policy analyst for The Heartland Institute.
‘Fiscal Cliff’ Tax Avoidance Boosted Tax Receipts for States in the 4th Quarter

Overall state tax revenues increased by 5.2 percent in the fourth quarter of 2012, according to the Nelson A. Rockefeller Institute of Government’s latest quarterly report on taxes. These data should not be seen as cause for celebration, said Lucy Dadayan and Donald J. Boyd, researchers at the institute and the report’s authors. In the final months of 2012 taxpayers took actions to minimize federal tax liability in an effort to reduce the effects of the “fiscal cliff.”

Evidence of this, the researchers noted, occurred with the payment of 2012 fourth quarter estimated taxes on income not subject to withholding tax. In the 38 states from which the Rockefeller Institute has data for estimated tax payments, the median payment for the fourth quarter rose 25.2 percent from the year-ago period, up sharply from the 6.7 percent median growth for the first three payments.

This, they indicated, supports the conclusions of the Rockefeller Institute’s previous quarterly State Revenue Report, which pointed to the likelihood of slightly depressed income tax revenue in the 2013–14 state fiscal years resulting from many filers shifting income to the 2012 tax year.

Weak in Every Category
Elsewhere, the report pointed to tepid increases in virtually every category of tax collection nationally. According to the report, in the fourth quarter:
• Personal income tax collections increased by 10.8 percent (this is the 12th consecutive quarter that revenues rose).
• Sales tax collections rose by 2.7 percent (this is also the 12th consecutive quarter that sales tax revenues have risen).
• Corporate income taxes (which vary enormously around the country) rose by 1.2 percent.
• Revenue from motor fuel taxes, tobacco taxes, alcoholic beverage taxes, motor vehicle licenses, and all other state taxes all either grew by less than 2.5 percent or declined.
• Thirty-six states reported higher tax revenue collections than in the same quarter of 2007, at the start of the recession.

Challenges for Local Governments
The institute pointed to continued weakness in local tax collections. For the quarter ending in December, the 2.3 percent growth in the four-quarter moving average of inflation-adjusted local tax collections is relatively weak compared to historical averages, and slightly weaker than in the previous quarter. As a result, the institute suggests, local governments could face continuing fiscal challenges if this weakness continues.

The Rockefeller Institute report noted in the first two months of calendar year 2013 revenue in most states continued to grow, with 45 early-reporting states pointing to increases in collections of 12.9 percent compared to the same months of 2012. Some of the growth, particularly in personal income tax revenues, may be artificially boosted at the expense of later years.

Taken on the whole, Dadayan and Boyd indicate sluggish growth continues to occur on a year-to-year basis. The researchers warned the sharp acceleration in estimated tax payments in the final quarter of 2012 and other behavioral shifts will make it harder for state officials to reliably forecast income revenue in the coming quarters.

— Nelson A. Rockefeller Institute of Government

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By Sean Parnell

The Sacramento Kings of the National Basketball Association have a new billionaire team owner, and that billionaire will have a new stadium for his team courtesy of local taxpayers.

Two days after the NBA rejected a bid to move the Kings to Seattle, the Maloof family agreed to sell the Kings to a new group of investors who promise to keep the team in Sacramento. The announcement follows the Sacramento City Council’s approval of a deal for a new downtown basketball arena with a total cost of more than $700 million.

The promise of a new arena was one of the selling points for billionaire software mogul Vivek Ranadive, lead investor of the new group of team owners. Their purchase of the team ends nearly five months of wrangling over whether the team should stay in Sacramento or move to Seattle.

In January investor Chris Hansen announced he had struck a deal to buy the team from the Maloof family and move the team to Seattle. Sacramento city officials scrambled to keep the team in their town and arranged a deal to build a new stadium.

Debt, Land, Tax Exemptions

The city would issue bonds to be paid off over 35 years at a cost of at least $574 million. The deal would cost the city an additional $126 million in property for the stadium and tax exemptions, bringing the total cost to roughly $700 million.

The new team ownership would pay $189 million toward the project’s cost, a figure substantially reduced by the $126 million in property and tax exemptions. Among the properties to be given to the owners tax-free are approximately 3,700 parking spaces, six sites for the placement of digital billboards, and several other city-owned properties.

The bonds, which would be interest-only for the first eight years, would be paid off with the city’s profits from its parking garages and parking meters, with hotel tax revenue backstopping the payments if parking revenues fall short.

“Construction of a new arena is an exciting opportunity for Sacramento, one that will help invigorate our downtown area and make Sacramento an even better place to live,” said John Dangberg, assistant city manager for Sacramento. Dangberg cited the long-time economic struggles of the downtown area, including a 50 percent decline in retail sales taxes in recent years, as justification for the city’s big financial commitment to the project.

‘Serious Risks to Taxpayers’

Not everybody is on board. “There are serious risks to the taxpayers of Sacramento if this deal moves forward,” said Craig Powell, president of local policy group Eye On Sacramento. “Funds would be diverted from other priorities and opportunities, and if the revenue from parking and the hotel tax comes up short the city would be forced to dip into the general fund.”

Powell also noted the long history of failed economic development projects intended to revitalize Sacramento’s downtown area, citing at least $500 million invested in downtown over the years as a “very well-known debacle.” Dangberg confirmed past public investments in downtown had failed but insisted the arena would be different because it would attract retail development.

Rushed Vote, Blocked Comments

The deal was voted on by the city council only three days after it was announced, drawing sharp criticism from many people. The editorial board of the Sacramento Bee, which supports building a new arena, called the rushed vote “a sham of the public, transparent process that should have happened” and noted “public comment on the [deal] clocked in at about one hour Tuesday night, not nearly enough for a project this monumental.”

“The there are serious risks to the taxpayers of Sacramento if this deal moves forward.”

CRAIG POWELL, PRESIDENT EYE ON SACRAMENTO

In addition, critics of the arena plan say they were blocked from even speaking on the deal at the city council meeting because of the tactics of arena supporters.

According to Powell, hours before the meeting supporters of the arena began filling the city council’s chambers. That forced many opponents to watch the meeting from another room after parking garages and parking meters, with hotel tax revenue backstopping the payments if parking revenues fall short.

Economic Research Dismissed

Opponents of the $700 million subsidy plan point to what they say is overwhelming academic evidence that taxpayer-subsidized stadiums do not provide meaningful economic growth or redevelopment.

In a March 14 letter to Dangberg, attorneys Patrick Soluri and Jeffrey Anderson note “trained economists who have analyzed the economic impact of publicly subsidized arenas find no evidence of any economic benefit whatsoever.”

Soluri and Anderson are part of a local effort to stop taxpayer subsidies for the new arena and have threatened to file lawsuits challenging the deal. Among other information, they cite a 2008 review of studies over the past 20 years on sports arenas by economists Dennis Coates and Brad Humphreys, who concluded, “The results … are strikingly consistent … articles published in peer-reviewed economics journals contain almost no evidence that professional sports franchises and facilities have a measurable economic impact on the economy.”

Dangberg was quick to dismiss the economic research.

“For every study that says these things don’t work, I’ve seen a couple of two cities that have been transformed with major projects like this,” he said. “We’re not going to fold our tent because some professor at a university says it doesn’t work.”

Sean Parnell (sean@impactpolicymanagement.com) is president of Impact Policy Management, a Washington, DC-area full-service public policy firm.
“Doing Tactical Retreat”

“It looks like they’re doing a tactical retreat on the most obvious and unfair taxes,” Washington Policy Center Vice President Paul Guppy said.

According to the Associated Press, the budget plan still includes roping in several million dollars via the business taxes.

The Washington Policy Center, a free-market think tank, recently conducted an analysis with the help of the Beacon Hill Institute and found the tax plan would result in the loss of thousands of private-sector jobs.

Though not as many jobs would be lost now that the beer tax and other proposed taxes have been dropped, Guppy said the bulk of the problem is with the plan to extend taxes on businesses.

In 2010 the legislature enacted temporary sales taxes that were set to expire this July, including the tax for the aforementioned services. The state Senate, led by a coalition of 23 Republicans and two Democrats, has a different budget plan that includes no new taxes.

‘Contest of Wills’

“It’s a contest of wills,” Guppy said. “Who is going to be more adamant?”

So far Washington breweries are on the winning end.

That would be good news to Peter Charbonnier, owner of Populuxe Brewing in Seattle. His would have been one of 200 small breweries facing a new tax for the first time. They were exempt from the temporary sales tax set in 2010.

“I’d never be able to quit my day job,” he said, adding the small brewery just got up and running a few months ago. “We just wouldn’t be able to expand.”

Both the Senate and House budget plans have taken heat. The Columbian newspaper reports some skepticism over the numbers in the no-tax-increase Senate plan. And Gov. Jay Inslee (D) received some pushback for unveiling budget highlights earlier this year that included tax increases.

Shelby Sebens (shelby@northwestwatchdog.org) writes for NorthwestWatchdog.org, where this article first appeared. Used with permission.

Study Says Reforms to Business Expensing Could Boost Economic Growth

By Richard Morrison

To achieve faster economic growth and greater job creation, Congress must look closely at rules governing expensing and depreciation for business investments, according to a new study by the Tax Foundation.

The tax treatment of these accounting procedures could mean the difference between a larger, growing economy and an unproductive period of stagnation.

“The rules for how quickly a company can write off investments in plants, equipment, and buildings directly impact the cost of doing business.”

STEPHEN J. ENTIN
SENIOR FELLOW
TAX FOUNDATION

Better Cash Flow

When the tax code allows businesses to account for the costs of major investments quickly—using “accelerated depreciation” or expensing to compute its income—the business receives a bigger deduction early in the life of the equipment and a smaller one later. It pays less tax in the early years and more in the later years. This increases the value of the business’s cash flow and means a higher return on the investment.

“Government officials prefer that businesses use lengthy depreciation rather than immediate expensing of costs when they occur, mainly because it appears to bring in more tax revenue sooner. Whether at the federal or state level, governments generally want their revenue in the door as soon as possible,” said Entin.

“That is unfortunate, because money left in the private sector for saving and investment normally generates a return of above 6 percent, which would provide an expansion of the economy that the public would consider well worth waiting for,” he explained.

End to Tax Bias

Fixing the distortion in the tax base by moving toward expensing would redress some of the punitive treatment current law imposes on capital-intensive industries and the blue-collar jobs they provide. It would end the tax bias against long-lived assets such as plants, commercial buildings, and multifamily housing.

Lower corporate tax rates on the resulting, better-defined income would add a further boost to all types of innovation and expansion. Combined, they would break the economy out of its current sluggish pattern of inadequate investment and job creation, the study concludes.

Richard Morrison (morrison@taxfoundation.org) is manager of communications at the Tax Foundation.

INTERNET INFO

Washington State Debates Definition of ‘Tax Increase’

By Jason Mercier

W hen the 2013 legislative session began in January, tax increases in Washington State were a long shot.

First there was the voters’ most recent confirmation (for the fifth time) of the state’s two-decades-old law requiring a supermajority vote in the legislature to raise taxes. That proposal, Initiative 1185, received 64 percent of the vote and passed in every county of the state, including liberal King County.

Then there was the campaign promise of newly sworn-in Gov. Jay Inslee (D), who promised, “I would veto anything that heads the wrong direction, and the wrong direction is new taxes in the state of Washington.”

Finally there was the newly formed Senate Majority Coalition (23 Republicans and 2 Democrats) that said it would not support a tax increase to balance the budget. Speaking on behalf of the coalition, Senate Republican Leader Mark Schoesler (R-Ritzville) said, “Our first priority has been to help the governor keep that pledge [not to raise taxes].”

Two Safeguards Gone

Fast-forward to budget crunch time and two of those three taxpayer safeguards are no more.

On February 28, the state supreme court in a 6–3 ruling declared unconstitutional the 20-year-old law requiring a supermajority vote to raise taxes.

According to the majority opinion, “Our holding is not a judgment on the wisdom of requiring a supermajority for passage of tax legislation. Such judgment is left to the legislative branch of our government. Should the people and the legislature still wish to require a supermajority vote, they should do so through a constitutional amendment.”

Although a proposed constitutional amendment to remedy the court ruling cleared a Senate committee, it was not brought up for a floor vote.

Then, on March 28, Inslee released the first budget proposal of his administration. It included a plan to increase taxes by more than $1 billion despite his campaign promise to veto tax increases and his campaign claim that any new revenue would come from job creation and a growing economy. Inslee said his proposed $1 billion in tax increases are not tax increases.

When asked if he was breaking trust with voters by proposing tax increases, Inslee said, “I am doing today exactly—exactly—what I said I was going to do if I was given this great responsibility of being governor.”

Extending Expiring Taxes

Though Inslee did say on the campaign trail he was open to closing tax preferences—without specifying which ones or for how much—more than half of his $1 billion tax increase proposal depends on the definition of a tax increase. According to Inslee, extending “temporary” taxes that are scheduled to expire is not a tax increase.

Approximately $662 million of Inslee’s tax proposal comes from extending taxes imposed in 2010 on some businesses based on the promise the higher levies would expire this year.

Under state law (RCW 43.135.034 (b)) the definition of a tax increase is “... any action or combination of actions by the state legislature that increases state tax revenue deposited in any fund, budget, or account.”

In other words, under the law as well as common understanding, extending a temporary tax scheduled to expire is in fact a tax increase.

Senate Coalition Objecting

For now at least, the Senate Majority Coalition is standing firm in its objection to tax increases and plans to rely on the $2 billion in revenue growth forecasted for the next budget.

“If it is disappointing to see Gov. Inslee break his strong campaign promise not to raise taxes,” said Paul Guppy, vice president of research for the Washington Policy Center. “We agree with the statement made by then-candidate Inslee’s campaign when his spokesperson said, ‘Taxes are not the way forward.’ Instead of trying to raise taxes, budget writers should take advantage of the $2 billion in additional revenue the hardworking taxpayers of our state are already providing.”

Jason Mercier (jmercier@washingtonpolicy.org) is director of the Center for Government Reform for the Washington Policy Center.

“Instead of trying to raise taxes, budget writers should take advantage of the $2 billion in additional revenue the hardworking taxpayers of our state are already providing.”

Paul Guppy
Vice President of Research
Washington Policy Center

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Emergency Manager Calls for Revamp in Detroit

By Steve Stanek

The emergency financial manager for Detroit has issued a report saying the city’s finances are in worse shape than nearly anyone suspected before Michigan Gov. Rick Snyder (R) appointed him to the job in March.

Snyder appointed corporate turnaround expert Kevyn Orr to be Detroit’s emergency financial manager. He is a lawyer in the Jones Day law firm in Washington, DC. Among other assignments, he represented Detroit automaker Chrysler during the company’s bankruptcy and government rescue in 2009.

“No one should underestimate the severity of the financial crisis,” Orr said in a statement. “The path Detroit has followed for more than 40 years is unsustainable and only a complete restructuring of the city’s finances and operations will allow Detroit to regain its footing and return to a path of prosperity.”

In many states and local governments, retirement costs for public-sector employees have become a huge drain on finances. But the problems in Detroit are especially severe. Orr’s recently released report notes twice as many people are taking money out of the city’s pensions as there are paying in.

“The city’s operations have become dysfunctional and wasteful after years of budgetary restrictions, mismanagement, crippling operational practices and, in some cases, indifference or corruption,” he wrote. “Outdated policies, work practices, procedures and systems must be improved consistent with best practices of twenty-first-century government.”

After Snyder’s announcement that he had picked Orr to be Detroit’s emergency manager, civil rights leader Rev. Jesse Jackson and other civil rights and neighborhood activists called for mass protests and federal court action to block Orr from assuming the post.

“Chronic budget troubles have taken a significant toll on everyday life for citizens in the city. Detroiters deserve to feel safe when they walk down the street, to have their street lights on, to have the bus show up to take them to work,” Snyder said in his announcement that he would appoint an emergency financial manager for Detroit, only to watch the dysfunctional city council pull the ball away,” said Jack McHugh, senior legislative analyst for the Michigan-based Mackinac Center for Public Policy. “The only real alternative to an emergency manager for the city is federal bankruptcy court, which the governor really doesn’t want to see happen.”

Bing took issue with the financial review team’s conclusion the city has no plan in place to correct the city’s financial emergency.

“To the contrary, my administration has worked diligently to develop and implement a restructuring plan for the City of Detroit,” Bing said in a statement. “We have the plan, but we face significant challenges executing it in a timely manner. We are hindered by several factors, including the City Charter, labor agreements, litigation, governmental structure, and a scarcity of financial and human resources.”

Damaged by Corruption

Detroit was the first of two Heartland publications, Budget & Tax News and FIRE Policy News.

Detroit’s population has dropped more than 25 percent since 2000. During much of that decade the city government apparently was awash in political corruption. On March 11, former Detroit mayor Kwame Kilpatrick and others, including Kilpatrick’s father Bernard Kilpatrick, were convicted on dozens of corruption charges. Guilty verdicts on 24 charges against the former mayor were handed down. They include racketeering, extortion, attempted extortion, bribery, mail fraud, wire fraud, and filing false tax returns.

Prosecutors said Kilpatrick, during his tenure turned city government into a criminal enterprise and spent $840,000 more than he earned, much of it by diverting government grants and other taxpayer dollars to personal use.

Corruption allegations dogged Kilpatrick throughout his tenure as mayor, which lasted from 2002 to 2008, when he resigned after being convicted of perjury and obstruction of justice. He spent four months in jail and in 2010 was sentenced to 18 months to five years in prison for probation violations. The March guilty verdicts were on new charges.

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.
Change Needed for U.S. Infrastructure Management

By Doug Kellogg

If taxpayers and ratepayers want to avoid unaffordable utility bills and huge liabilities in the not-too-distant future, they must insist now on more competition, oversight, and innovation in the way public officials manage the nation’s water and sewer systems.

“That’s the conclusion of a comprehensive study issued by the 362,000-member National Taxpayers Union (NTU). The analysis projects hundreds of billions of dollars in future government expenditures could be saved by adopting techniques such as open, competitive procurement for pipe materials and better asset management.

“Every time they experience the inconvenience of water main breaks or the frustration of skyrocketing utility bills, Americans sense that the water infrastructure they depend on is in serious need of reform,” said study author Gregory Baird, a renowned water finance expert. “However, simply throwing new funding into more holes in the ground, without making fundamental changes in the way infrastructure is procured and managed, won’t restore the public’s trust.”

Fiscal, Political Impediments

Baird is president of the Water Finance Research Foundation (WFRF). He examined the challenges of decaying water and wastewater systems in the United States and determined impediments to change are more fiscal and political in nature than technical.

For example, although corrosion is the main factor in deteriorating metallic pipes such as cast and ductile iron, boosting long-term replacement costs to $1 trillion or more, use of other types of material could with proper evaluation for local needs and conditions reduce or control that problem.

Baird drew upon established industry standards and research from prestigious institutions to develop a methodology incorporating pipe diameters, water main breakage/decay tests, pressure specifications, and other variables to provide an estimate of potential savings by allowing materials such as PVC pipes to be considered in the water delivery process. Among the study’s findings:

• A nationwide switch from cast iron and ductile iron pipes to PVC, given open procurement and cost justification analysis, could benefit water ratepayers and taxpayers in the average total amount of $371 billion, or 17.4 percent of the total replacement value of U.S. underground water pipe infrastructure. About one-fourth of these savings would occur over roughly 25 years, with the rest in subsequent decades.

• Population growth will drive the need for new underground infrastructure, not just replacement. If these pipes were also subjected to rigorous open procurement and cost justification analysis across the country, a total of $139.6 billion in savings could be realized through the year 2050.

• Individual states and cities, many of which do not allow open procurement, could reap large benefits from such reforms. The author conducted PVC-based cost-cutting estimates for places such as Chicago ($33.6 million in savings) and Detroit ($8.5 million to $11.9 million in savings).

Rational Debate

Baird noted various industries and utilities are likely to argue over the estimates, but they would be missing the point of the NTU-commissioned study: Reforms such as open procurement practices and life-cycle costing methods allow debate to occur in a rational way.

“The issue at hand is not really the selection of one pipe over another, but the ability for a utility to take advantage of all materials, processes, technologies, and products that create the most cost-effective solution while meeting sustainable performance levels,” he wrote.

Many other stakeholders, including most recently the Mayors Water Council of the U.S. Conference of Mayors, have spoken out for competitive procurement of underground infrastructure, improving the prospects for overhauling current, flawed practices.

Baird says utility managers and elected officials must embrace regular public reviews and financial analyses of their operations, including multi-year condition assessments, to reduce risks to ratepayers and earn their confidence.

“Taxpayers and ratepayers deserve better stewardship, oversight, and allocation of the resources they entrust to government, and all of it starts underground,” said NTU Executive Vice President Pete Sepp. “We’re excited to work with the Water Finance Research Foundation in providing some alarming findings, but also some encouraging solutions, to the debate over an issue that literally must be brought to light.”

Doug Kellogg (dkellogg@ntu.org) is communications director for the National Taxpayers Union.

Health care deformed

Rather than liberate the American health care system from bureaucracy and waste, Obamacare blankets it with more of both, suffocating innovation and destroying freedom. PETER FERRARA, senior fellow for entitlement and budget policy for The Heartland Institute, offers a devastating appraisal of how Obamacare expands the reach of government, raises costs, and reduces benefits.

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“Reforming Our Nation’s Approach to the Infrastructure Crisis,”
The Internal Revenue Service has overpaid the Earned Income Tax Credit by at least $110.8 billion since 2000, according to a recent Treasury Department inspector general report. That is more than double the $53 billion of sequester cuts expected in 2013, totaling less than 2 percent of outlays, and puts the lie to those who suggest there is nothing to cut in the federal budget.

The report covered tax years 1999 through 2008; the overpaid expenditures occurred in calendar years 2000 through 2009. Current data are not available. According to the report, “Because of the time it takes to complete the annual National Research Program, the IRS cannot conduct eligibility checks’’—New York University law professor Richard A. Epstein, writing in the Hoover Institution’s Defining Ideas journal, May 21, 2013.

Nearly 23 Percent Overpayment

The average minimum overpayment each year was 22.8 percent of all money spent on this particular tax credit, which applies to lower-income individuals and couples with children. Originally enacted in 1975, the program has been expanded numerous times over the years, including in 2009, when it was expanded to include those with three or more children, and married couples.

Benefits under the tax credit often exceed an individual’s tax burden, resulting in an effective negative tax rate. The individual could wind up paying no personal income tax and yet receive a “refund” sometimes totaling thousands of dollars.

For example, an individual with an adjusted gross income of less than $37,870 and one child can receive a maximum credit of $3,250. With two children, the individual could receive $5,372, and with three or more children, $6,044.

The report noted the EITC was the only program administered by the IRS with “a high risk for improper payments.”

Apparently, the IRS does not perform much verification of claims made on tax returns.

‘Cannot Conduct Eligibility Checks’

According to the inspector general report, “the IRS cannot conduct extensive eligibility checks similar to those with other Federal programs that typically certify eligibility prior to the issuance of payments or benefits.”

The report says this is because the agency is required to process tax returns and issue tax refunds within 45 days of receipt.

The program will spend approximately $55.1 billion in 2013, according to the White House. This means at least $12.6 billion could be wasted in overpayments this year alone.

Remarkably, the inspector general report does not cite some of the likely causes for the overpayments.

Because the tax credit is administered on the basis of income and family size, there would appear to be three probable causes for the waste: Filers are understating their actual income; filers are overstating their family size; or parents are claiming the same child or children twice on separate tax returns when children are supposed to be claimed only once.

No Pre-Refund Verification

More amazing is that in this data-driven age, the IRS cannot perform straightforward pre-refund verification of tax returns. For example, when individuals file for the EITC, they must provide the name of their child and his or her Social Security number. Moreover, when children are issued their Social Security numbers, their parents are usually the ones who fill out the application.

Therefore, based on data already in the government’s possession, it should be possible to verify in most instances that a parent is not falsely claiming a child for purposes of receiving the tax credit. It also should be possible to make certain that the same child is not being claimed twice or more by different individuals.

Similarly, it should be possible by merely comparing W-2 forms submitted by employers and individuals under the same Social Security number that those individuals are not understating their income. A simple computer program using spreadsheets could be set up to catch red flags that way.

With a national debt of $16.8 trillion and rising, we’re wasting tens of billions of dollars issuing tax credits to people who do not qualify for them.”

“In other Words . . .

“The dismal performance of the IRS is but a symptom of a much larger disease which has taken root in the charters of many of the major administrative agencies in the United States today: the permit power. Private individuals are not allowed to engage in certain activities or to claim certain benefits without the approval of some major government agency. The standards for approval are nebulous at best, which makes it hard for any outside reviewer to overturn the agency’s decision on a particular application.

“That power also gives the agency discretion to drag out its review, since few individuals or groups are foolhardy enough to jump the gun and set up shop without obtaining the necessary approvals first. It takes literally a few minutes for a skilled government administrator to demand information that costs millions of dollars to collect and that can tie up a project for years. That delay becomes even longer for projects that need approval from multiple agencies at the federal or state level, or both.

“The beauty of all of this (for the government) is that there is no effective legal remedy.”


Robert Romano (robert@getliberty.org) is senior editor of Americans for Limited Government. Used with permission of NetRightDaily.com.
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