Political Left and Right Say ‘No Sale’ to Obama’s ‘Grand Bargain’

By Steve Stanek

President Barack Obama proposed to Republicans a “grand bargain” on taxes that he said would spur jobs and income growth, especially for lower- and middle-income Americans.

But early responses to his late July speech, including from groups that have been loyal Obama backers, indicate the grand bargain could be a big bust.

“President Obama’s just-announced economic ‘grand bargain’ proposal is a disas-

BARGAIN, p. 2

Senate Bill Aims to Ban Internet Access Taxes Forever

By Matthew Glans

The Internet Tax Freedom Act of 1998 placed a moratorium on state and local taxation of Internet access and on discriminatory taxes on emails and other electronic data. The moratorium is set to expire in 2014 but some members of Congress are proposing to make it permanent.

Introduced by Sens. Ron Wyden (D-OR) and John Thune (R-SD), the Internet Tax Freedom Forever Act (S. 1431) would permanently extend the ban on state and local taxation of Internet access service.

Another bill—the Digital Goods and Services Tax Fairness Act—also would set up a national framework for the taxation of digital items like apps, movies, and music to avoid multiple and discriminatory taxation.

The goal of both bills is to keep
Left and Right Say ‘No Sale’ to Obama’s ‘Grand Bargain’

Continued from page 1

ter for low-income and middle-class Americans. It’s clear from years of a tax system that’s rigged in favor of corporations that the last thing we need is to allow corporations to pay less,” said Liz Ryan Murray, president of the left-wing National People’s Action network, in a statement.

‘Highest Rate in World’
From the right side of the political spectrum, Tax Foundation President Scott Hodge said, “The president has often spoken in favor of the need to reduce the U.S. corporate tax rate, and he’s right—we have the highest rate in the world and that needs to come down in order to make us more competitive around the world. But improving the corporate tax code with one hand while placing extra burdens on U.S. companies with the other is not going to lead to the increase in jobs and economic growth we need.”

And from Chris Edwards, director of tax policy studies at the libertarian-leaning Cato Institute, there was this: “The Obama administration proposal is a joke—it seems specifically designed not to generate an agreement with the Republicans. Any revenues from broadening the business tax base should be used for reducing marginal tax rates, not for higher spending.”

Obama declared his support for cutting the federal corporate tax rate from 35 percent to 28 percent and giving manufacturers a special tax rate of 25 percent. But he also called for a minimum tax on foreign business earnings and for measures that make it more difficult for businesses to write off investments in plants and equipment. The tax changes would not cut to an overall tax increase, which Obama said the government should spend on “infrastructure” such as roads and bridges, and on community colleges, among other things.

“If we don’t make these investments and reforms, we might as well throw up the white flag while the rest of the world forges ahead in a global economy,” Obama said in announcing the plan. “And that does nothing to help the middle class.”

Senate Minority Leader Mitch McConnell (R-KY) expressed his opposition by telling reporters, “The tax hike [the plan] includes is going to dampen any boost businesses might otherwise get to help our economy.”

Territorial vs. Worldwide Taxation
“When it comes to the corporate tax code, there are two major changes that will stimulate investment and lead to greater economic growth,” Hodge said. “One, as the president has acknowledged, is cutting the corporate rate. The other, which he seems dead set against, is to follow the lead of our major trading partners and only tax corporate profits that are earned in this country.”

All other industrialized nations use a “territorial” tax system, in which businesses pay tax where they earn income. For instance, a Germany-based company with income earned in the United States would pay U.S. tax on that money. It would not owe anything to the German government.

The U.S. uses a “worldwide” tax system. If a U.S. corporation were to bring back money earned and taxed in another country, the U.S. would tax it. Under the Obama proposal, the government apparently would tax money overseas, even if the company does not bring it back to the U.S.

‘Could Be Win-Win-Win’
Edwards said the Obama administration “fails to see that reducing the corporate tax rate in itself will increase job-creating investments in America. They seem to think that only spending creates jobs and that the effort to reduce the world’s highest corporate tax rate is some sort of giveaway.”

The Obama administration proposal could be a win-win-win—for Obama, Republicans, and the overall economy,” he said.

“The tax hike [the plan] includes is going to dampen any boost businesses might otherwise get to help our economy.”
MUTCH MCCONNELL (LEFT)
SENATE MINORITY LEADER - KY

‘Siding With Giant Companies’
Ryan Ellis, tax policy director at Americans for Tax Reform, wrote on the atr.org Web site the proposal is “actually part of a larger pattern of this president siding with giant, well-funded companies with DC lobbyists instead of Main Street small employers.”

Ellis noted fewer than two million of the nation’s 32 million businesses are corporations; the 28 percent corporate tax rate still would be higher than the rates paid in every major trading partner country except Japan and France; and most American employers pay taxes as individuals and face a top rate of 39.6 percent and a small business Medicare tax of 3.8 percent, resulting in a tax rate that tops 43 percent.

“President Obama has an opportunity here given to him on a silver platter, but his ideological blinders seem to prevent him from seeing it and grasping it. He could easily come to a deal with Republicans to drop the corporate rate to 20 or 25 percent, and that would boost the economy while burnishing the president with a new pro-growth, pro-business image. It would be a win-win-win—for Obama, Republicans, and the overall economy,” he said.

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.
Bill Aims to Ban Internet Access Taxes

states and local governments from piling taxes onto Internet access and digital goods as they have on wireless phone services. The national average tax on wireless service tops 17 percent, more than double the 7.3 percent average tax on other goods and services. In some states, wireless service taxes top 20 percent.

Limiting Taxes, Encouraging Growth

The Internet has become an important economic force, and ensuring affordable access for businesses and consumers is crucial, Wyden said in a statement.

“As the Internet Tax Freedom Act enabled and promoted Internet access and adoption across America, the Internet became a platform to facilitate global commerce, sparking nothing short of an economic revolution,” said Wyden.

Despite the current moratorium, Internet users in some states still pay access taxes on their Internet service provider (ISP) bills. When the Internet Tax Freedom Act was passed, 10 states that already had access taxes—Hawaii, New Hampshire, New Mexico, North Dakota, Ohio, South Dakota, Tennessee, Texas, Washington, and Wisconsin—were allowed to keep them.

There has been some confusion about which taxes the moratorium would affect. The only taxes prohibited by the moratorium are fees for Internet access, such as broadband or dial-up services. The moratorium does not exempt Internet sales from state sales taxes.

Piling On Phone Bills

Opponents of Internet access taxes say allowing them could quickly make Internet service provider bills resemble wireless phone bills, with their numerous and high tax burdens. This would reduce the number of persons accessing the Internet, especially among lower-income individuals.

The reaction to the bills from the Internet and telecom industries has been overwhelmingly positive.

“The Internet remains one of the greatest job creators and growth engines for our national economy. The legislation introduced today will provide a permanent and predictable tax environment for businesses to grow, and promote further broadband adoption in all parts of America,” said Tony Russo, vice president for T-Mobile US Inc., in a statement.

“Reasonable and Permanent Tax Process”

Steve Largent, president and CEO of CTIA-The Wireless Association, says while the current moratorium was important during the early growth years of the Internet, continuing the moratorium is even more important, because Internet service has become so much a part of people’s lives and the overall economy.

“Wireless broadband was in its infancy when Congress passed the Internet Tax Freedom Act 15 years ago and put the first temporary tax moratorium in place. Today, millions of Americans rely on wireless technology for myriad purposes in their everyday lives, and it’s more important than ever to create a reasonable and permanent tax process on Internet access,” Largent wrote on his blog.

Broadband for America, a coalition of leaders from multiple industries advocating for high-quality access to the Internet for everyone in the United States, indicated its strong support for the moratorium and a national framework for taxation of digital goods.

“Passage of the Internet Tax Freedom Act will ensure that consumers’ access to broadband will continue to be protected from onerous local taxes and fees,” the coalition announced on its Web site.

The coalition added, “The Internet must not be subject to arbitrary taxes on a state-by-state basis, which can discourage adoption, innovation, and investment. These measures fit within the federal government’s effective light touch approach to Internet regulation that has encouraged private investment and allowed broadband access, adoption and use to flourish across the country.”

Matthew Glans (mglans@heartland.org) joined the staff of The Heartland Institute in November 2007 as legislative specialist for insurance and finance. In 2012 Glans was named senior policy analyst.
Urban Poor Among Those Subsidizing Phones for Wealthiest U.S. Locales

By Mary Petrides Tillotson

Researchers are expressing skepticism toward Federal Communications Commission reforms that attempt to end waste in a federal phone subsidy program.

Before the 2011 reforms, federal subsidies provided up to nearly $24,000 per year per phone line in certain high-income areas, including the island of Maui in Hawaii, Colorado resorts, and gated communities in Arizona. The subsidies have been going to approximately one-half of 1 percent of the nation’s households. Maximum subsidies per line are smaller now but still far more than the actual costs to provide phone service.

Phone service is available anywhere in the country, without subsidies, for $600 per line per year, said Thomas Hazlett, one of two authors of the study, “Unrepentant Policy Failure: Universal Service Subsidies in Voice & Broadband,” published by the Alliance for Generational Equity, or AGE. “It’s very hard to believe that people in these very wealthy communities would be without phone service if it were not for poor people in urban areas subsidizing them,” said study coauthor Scott Wallsten.

Regressive Tax Program

Taxes on phone services, especially long-distance and international calls, fund the Universal Service subsidies. The taxes are imposed without regard to phone users’ income levels. Poor families spend more of their income on phone services than wealthy families do and so are hit harder by the taxes than higher-income families. Low-income immigrant families are hit the hardest, according to the study. “It turns the whole idea of equity on its head,” Wallsten said.

The subsidy costs have been decreasing over the past several years, as more people move from land lines to cell phones, Wallsten said. By 2011, total costs were $4 billion.

Despite the decrease, the 2011 reforms require that administrators estimate costs of at least $4.5 billion, Wallsten said. This increases the cost by $500 million a year and leaves no room to reduce the cost to taxpayers.

In addition, the FCC reforms added a new reason for the subsidies: broadband Internet.

Higher Costs Overall

The reforms do little more than protect the FCC from dramatic news stories about the subsidies while increasing the overall cost of the Universal Service program, Wallsten said.

Per-line annual spending under the reforms is capped at $3,000, but even that number is about five times more than the actual cost. The $3,000 cap is “laughably high” compared with the actual $600 cost of phone service, Hazlett said.

Forgoing any loopholes, the cap prevents any one company from receiving huge amounts of money per line but ignores the root of the problem: hundreds of companies involved in smaller amounts of waste less likely to make headlines.

Notably, the federal spending funds rural phone companies and not consumers. Phone users are often left with a $400 to $500 annual bill, Hazlett said. Hazlett said it’s “outrageous” to spend thousands of dollars per line per year “when you could literally give sat-ellite service free, essentially, for, at that time, $1,000 a year to the customers in any part of the country.”

Hundreds of Recipient Companies

The companies that received $24,000 a year per phone line have received most of the attention, “but it’s not the inherent problem in the program, it’s not where the big bucks are going,” Wallsten said. “The thing to really focus on is the hundreds and hundreds of companies that get much less than that that won’t be affected by the cap.”

“The companies that get these huge amounts are nice symbols of the problem with the program, but it’s not where most of the money is going, and the reforms have done nothing to affect where most of the money is going,” he said.

The researchers found FCC data showing more than 99 percent of U.S. households have access to mobile phone service and wireless broadband service, and that includes almost 98 percent of rural households.

“In essence, these programs have run out of things to subsidize,” the study notes.

Mary Petrides Tillotson (mary.c.tillotson@gmail.com), a former Michigan reporter, now writes from Front Royal, Virginia.
North Carolina Overhauls K-12

By Bailey Pritchett

Despite 13 weeks of teachers union protests, North Carolina passed into law a state budget that makes thousands of poor children eligible for vouchers, eliminates K-12 tenure, eliminates automatic pay increases for master’s degrees, and creates an A-F public school grading system.

The budget also adds $23 million to the state’s $11 billion in annual education spending.

“If there’s any way to tell if a budget is good, it’s the teacher union’s eagerness to sue over it,” said Terry Stoops, a senior analyst for the Raleigh-based John Locke Foundation.

Hours after the $20.6 billion budget passed on July 26, the North Carolina Association of Educators (NCAE) threatened to pursue legal action over its elimination of tenure in favor of one-year contracts.

Two New Voucher Programs

North Carolina is now one of the 13 states that offer K-12 vouchers and one of the nine that offer vouchers to special-needs students.

The special-needs voucher passed in its own stand-alone bill in July. It will allocate up to $6,000 to families with special-needs students, at an estimated cost of $3.7 million for the coming school year. Average per-pupil spending for special-needs students in public schools is more than twice that amount.

The low-income voucher, also known as an “opportunity scholarship,” will allocate up to $4,200 to each eligible student, up to $10 million total. The law aims to distribute vouchers to as many as 7,000 students in 2014-15. Families who qualify for free and reduced-price lunch are eligible, meaning a family of four earning up to $43,568 a year.

Protesting on ‘Moral Mondays’

For 13 weeks, NCAE held weekly protests at the general assembly, calling the protests “Moral Mondays.” Although the legislature is out of session, police estimated more than 5,000 people protested the budget on Monday, August 5.

“Since North Carolina is a Right to Work state, the NCAE is weak when it comes to collective bargaining,” Stoops said. “But the membership is strong.”

Tenure will phase out by 2018. Stoops said most claims about eliminating teacher tenure have been “overblown.” He does not expect an increase in layoffs when the education reforms begin to take effect.

“I doubt we will see widespread firings because of tenure eliminations in North Carolina,” Stoops said. “I think this is going to affect a small group of teachers that have no business being in a classroom.”

TERRY STOOPS, SENIOR ANALYST, JOHN LOCKE FOUNDATION

‘Historic Year for Education Reform’

In 2013-14, a legislative report estimates state K-12 spending will top $7.6 billion, more than 4 percent above last year.

Although the state’s budget typically allocates more than one-third of its funds to K-12 education, North Carolina ranks 48th in the country for K-12 per-pupil spending.

“The budget and reforms that passed [are] a win for parents,” said Stoops. “I don’t think it would be an exaggeration to say this year will be a historic year for education reform.”

For more than 100 years, Democrats ran North Carolina’s legislature and resisted school choice, Stoops said. But in 2010, Republicans won the majority in both legislative houses. Two years later, North Carolina elected the first Republican governor in 20 years.

“If you would have told me in 2009 that North Carolina would pass two voucher programs and charter school reforms, I would have laughed and dismissed it,” Stoops said. “In the span of two years, there has been complete reform. That’s why I say, ‘Never say never.’”

With 18 titles so far, The Heartland Institute’s ebook offerings range from The Obamacare Disaster and The Patriot’s Toolbox to Booker T. Washington: A Re-Examination. In the convenient, easily downloaded Kindle format, you can read these and other Heartland books on one handy device.

Visit Amazon’s Kindle store, search for The Heartland Institute, and discover our offerings for yourself.

We’re just a click away!
New Framework for Digital Goods Taxes Proposed

By Matthew Glans

As technology advances, more products are becoming available online in a digital format. Politicians are eyeing these digital goods—applications, music, videos, ebooks, and the like—as sources for more tax revenue.

Most states impose sales tax only on transactions that involve tangible personal property such as cars or computers. Many states do not impose sales taxes on services or intangible property. Digital goods fall in between many of the older definitions of taxable or not taxable, and they have created disagreement over whether they are tangible personal property or intangible property.

Most states have declared most software to be a tangible product and therefore subject to sales tax. States are now classifying digital products and are moving in many different directions.

Each state has taken its own approach to digital goods taxes. Double taxation has emerged as a problem. When a digital transaction involves multiple states, buyers can find themselves paying multiple sales taxes.

In an effort to create uniformity in digital sales taxes, Sens. Ron Wyden (D-OR) and John Thune (R-SD) and Reps. Lamar Smith (R-TX) and Steve Cohen (D-TN) recently introduced the Digital Goods and Services Tax Fairness Act.

The primary goal of the act is to create a national framework that will prevent consumers of digital goods from being hit with multiple and discriminatory taxes, according to Thune.

"Federal regulations have not kept up with the fast-growing and ever-changing digital marketplace, resulting in outdated rules that could allow a single transaction to be taxed by multiple jurisdictions."

JOHN THUNE
U.S. SENATOR - SOUTH DAKOTA

"This bill ... protects the digital economy from the unfair application of taxes that would stifle the innovative digital goods and services that are transforming the economy.”

RON WYDEN
U.S. SENATOR - OREGON

American economy,” said Wyden in a statement. “This bill, which is consistent with the principles of the Internet Tax Freedom Act that is current law, protects the digital economy from the unfair application of taxes that would stifle the innovative digital goods and services that are transforming the economy.”

The act also would help prevent taxes that are being imposed on wireless and other communications services from being imposed on digital goods and services.

Jot Carpenter, vice president of government affairs for CTIA-The Wireless Association, commended the bill’s sponsors, agreeing a national framework is needed.

“Senators Wyden and Thune continue to demonstrate their leadership by introducing this bill to preserve affordable digital goods and services. From apps to e-books, consumers rely on and benefit from digital goods and services,” said Carpenter in a statement.

He continued, “Establishing a consistent national framework for how state and local taxes are imposed will protect consumers from multiple and discriminatory taxes on digital purchases.”

Matthew Glans (mglans@heartland.org) joined the staff of The Heartland Institute in November 2007 as legislative specialist for insurance and finance. In 2012 Glans was named senior policy analyst.

"Critical to Innovation"

“Creating clear, national disciplines that govern the taxation of the digital economy is critical to innovation and the growth of this segment of the economy.”

Ending Tax Deductions in Right Way Could Boost Economy, Study Says

The deduction of state and local income taxes or general sales taxes on federal returns is one of many “tax expenditures” being considered for elimination as part of a major tax reform effort in Congress.

According to a new study by the nonpartisan Tax Foundation, simply eliminating the deduction could harm the economy, but pairing such a policy with an across-the-board cut to income tax rates would produce strong employment growth, along with boosts to GDP and federal revenues.

According to a conventional static revenue estimate, eliminating the deduction would raise federal revenue by $68 billion in 2012 dollars. The Tax Foundation’s dynamic model, however, predicts eliminating the deduction for state and local income taxes or general sales taxes would cause economic harm. Once the economy has fully adjusted, GDP would be $74 billion lower than otherwise, and because of the negative economic feedback, the revenue gain would be smaller than the static estimate, at $50 billion.

Expanded GDP, More Jobs

“Although simply eliminating the deduction could damage the economy, if we paired the deduction with an across-the-board individual rate cut of 5.8 percent, we see a rather different outcome,” said Tax Foundation Fellow Michael Schuyler, Ph.D. “GDP would expand by a net $24 billion, and federal tax collections would increase by a net $6 billion. From a growth perspective, this is an attractive trade.”

Although simply eliminating the deduction would reduce employment by about 251,000 jobs, using the revenue gain from eliminating the deduction to pay for a rate cut would increase employment by the equivalent of approximately 300,000 full-time jobs, the study found.

After-tax wages also would receive a boost.

“When considering a path for comprehensive tax reform, it is critical to not lose sight of what is most important,” said Tax Foundation President Scott Hodge. “In addition to policies that simplify the tax code, we need policies that effectively foster economic growth. Pairing the state and local income tax or general sales tax deduction with an individual rate cut is one such policy.”

— Tax Foundation

INTERNET INFO
Nearly a Quarter of Federal Student Loans Are in Default or Delayed Default

Ongoing 40 percent of individuals with direct federal student loans are currently repaying their debt. Many of the rest are taking advantage of a grace period before repayment, but 14 percent are in forbearance (delayed default) and another 8 percent are in default, according to a report by the Consumer Financial Protection Bureau. “[T]here are over 7 million borrowers in default on a federal or private student loan. We also estimate that roughly a third of Federal Direct Loan Program borrowers have chosen alternative repayment plans to lower their payments,” wrote report author Rohit Chapra, the CFPB’s student loan ombudsman.

The numbers do not bode well for American taxpayers, as student debt totals approximately $1 trillion.

Free-market advocates for years have been warning against the potential dangers of government-granted and subsidized student loans as a distortion of the education market and a financial burden on taxpayers.

Education Lending Bubble
The federal government’s student loan policy does not offer competitive interest rates based on risk of default. Just as manipulations in the home lending market caused a proliferation of sub-prime mortgage loans to borrowers who never would be able to repay their debts, student loans are being offered to individuals who have slim hope of earning enough money to repay those loans, even if they complete their college educations.

“Those young people are being suckered into taking out loans that will stick to them forever. Only Congress could think up such a scheme and call it a benefit to the youth,” said George Clowes, a Heartland Institute senior fellow in education and former managing editor of School Reform News.

Government-backed student loans are luring academically weaker and less-committed students to enroll in college, leading to increased dropout rates, said Neal McCluskey, associate director of the Cato Institute’s Center for Education Freedom. He noted “roughly one out of every two college students don’t graduate today.”

Even at higher-end private schools, the graduation rate is only about 66 percent. Graduation rates for part-time students are well below these averages.

Free-market advocates support an end to student loans to save the taxpayers money and stem the artificial demand for college educations that has driven up prices.

The Obama administration has been hinting at the opposite of a free-market solution: tuition price controls. Administration officials have suggested the federal government could cut off student loans to students who want to attend specific institutions that continue to raise tuition.

The sky-high college tuitions are not bettering higher education, said Herbert Walberg, a senior fellow in education at The Heartland Institute, distinguished visiting fellow at the Hoover Institution, and professor emeritus at the University of Illinois-Chicago. Much of the money is being directed to administration and other ancillary activities.

“There is too much focus on community service and research, which doesn’t help students,” Walberg said. “We need to return to the old days when colleges concentrated on teaching.”

With 8 percent of students in default on their student loans and 14 percent in forbearance, taxpayers must cover billions of dollars of losses. And losses are expected to increase as tuition costs rise and more students find themselves unable to pay back their loans.

To reverse course on student lending, there needs to be substantial change in the way people view higher education, said Frederick Hess, resident scholar and director of education policy at the American Enterprise Institute.

He said the key is to “stop romanticizing college loans. We need to worry about students but policy must be appropriate.”

Matt Faherty (matt.heartland@gmail.com) writes from Chicago.
Public Strongly Opposes Carbon Tax, Survey Finds

By Kenneth Artz

American voters overwhelmingly oppose a carbon tax, according to a survey released by the Institute for Energy Research.

Only 35 Percent Support

According to the survey of 800 registered voters, 35 percent favor and 59 percent oppose a carbon tax. Democrats generally support a carbon tax (54 percent to 39 percent), while Republicans and independents strongly oppose the idea (80 percent to 16 percent and 62 percent to 29 percent, respectively).

Just 33 percent of respondents said they would be more likely to vote for a member of Congress who votes for a carbon tax, whereas 50 percent said they would be less likely to vote for a member of Congress who did so.

Suspicious of Motives

American voters are particularly suspicious of carbon tax supporters’ motivation. Only 34 percent say they believe improving the environment is the primary motivation behind a carbon tax, whereas 61 percent say carbon tax supporters are primarily interested in raising more money for government.

Even among respondents who support a carbon tax, many want only a very small tax. Only 20 percent of all respondents would support paying $100 or more per year in a carbon tax.

On a broader subject, 79 percent said Congress should focus more on the economy, versus only 17 percent who said Congress should focus more on the environment.

Sterling Burnett, a senior fellow with the National Center for Policy Analysis, said he is not surprised at the overwhelming opposition to a carbon tax.

“A certain portion of Americans might be willing to pay carbon taxes if they would do any good, but no one has proven that a carbon tax will do anything to mitigate global warming,” Burnett said.

Strong Message to Pols

Daniel Simmons, director of regulatory and state affairs at the Institute for Energy Research, says beltway politicians can learn much from the survey.

“The takeaway is that American voters are not in favor of increased taxes or higher prices for energy and are very willing to vote against their congressmen who vote in favor of a carbon tax,” he said.

“It’s really simple: People don’t want a carbon tax. It’s a political no-brainer,” he continued.

Simmons emphasized a carbon tax will raise prices on energy, which will punish consumers and businesses throughout the economy.

“President Obama and congressional Democrats are going to try hard to rebrand the notion of a carbon tax in order to get it passed here,” said Simmons. “Over 80 percent of our nation’s energy comes from coal, oil, and natural gas, the sources of energy that would be affected by a carbon tax. If President Obama and the Democrats enact a carbon tax, then we’ll be seeing the cost of everything go up.”

Kenneth Artz (iamkenartz@hotmail.com) writes from Dallas, Texas.

INVEST IN FREEDOM

INCLUDE THE HEARTLAND INSTITUTE IN YOUR ESTATE PLAN

One way to ensure free-market ideas are effectively promoted in the future is to name The Heartland Institute a beneficiary of your estate. You may designate a dollar amount or a percentage of your estate, or name Heartland a beneficiary of your insurance policy, retirement plan, IRA, bank or brokerage account, real estate, or other financial assets.

Many legacy gifts are easy to make and do not require legal assistance. For those that do, Heartland has legal advisors willing to help.

For sample bequest language or for further information please contact Mark Sulkin, Director of Development, or Gwendalyn Carver, Donor Relations Manager, at 312/377-4000 or by email at msulkin@heartland.org or gcarver@heartland.org.

The Heartland Institute is tax-exempt under Section 501(c)(3) of the Internal Revenue Code. Its federal tax identification number is 36-3309812.

The Heartland Institute
One South Wacker Drive #2740
Chicago, IL 60606

HEARTLAND.ORG
New Mexico, Other States Crush Jobs Through Licensing Requirements

By Rob Nikolewski

Does New Mexico really need somebody to have two years of experience and take two exams before the person can repair a door?

Or two years of training to install a security alarm?

Or to train for two full years, pass two exams, and pay $318 before getting the state’s approval to operate paving equipment?

Tim Keller of the Institute for Justice doesn’t think so. He said a 2012 study reveals New Mexico has the 12th-most burdensome licensing laws in the country, and he said that holds back the state’s economy by putting hurdles in front of new businesses, unfairly targets low-income job applicants, and acts as a wall to protect companies that are already licensed from outside competition.

“These licenses essentially act as a government permission slip to work,” Keller said while speaking at a luncheon sponsored by the Rio Grande Foundation, a free-market think tank based in Albuquerque.

Keller is an attorney for the Institute for Justice, a civil liberties law firm based in Arlington, Virginia whose lawyers were described as “a merry band of libertarian litigators” by columnist George Will.

Nearly One in Three Need Licenses

The institute cites a study from a University of Minnesota labor economist who said in the 1950s only one in 20 workers in the nation needed government permission to start a job. Today, it’s closer to one in three.

Last year, the Institute for Justice analyzed the license requirements in all 50 states and the District of Columbia and zeroed in on low- to moderate-income jobs like interior designers, massage therapists, and shampooers, not doctors and lawyers. The report showed licensees had to pay on average $209 in fees, pass an exam, and complete nearly a year of training.

Louisiana and California had the most burdensome occupational license requirements in the country, with New Mexico finishing in the top quartile.

“There’s no doubt that there’s too much licensure, both across the nation and here in New Mexico,” Keller told New Mexico Watchdog. “The consequences are lost wages, lost jobs, and significant lost economic opportunities.”

More for Cosmetologists than EMTs

The study found New Mexico requires emergency medical technicians to undergo 42 days of training, pass two exams, and pay $65 in fees to get licensed for their potentially lifesaving jobs. The state requires cosmetologists to undergo 373 days of training, pass three exams, and pay $180 in fees.

“Every single state requires individuals to obtain anywhere between 1,500 and 2,000 hours simply to cut hair [or] color hair inside of salons,” Keller said. “It costs individuals tens of thousands of dollars to attend schools before they can sit for the licensing exams, and there’s just no justification for this. The health and safety record inside of salons is actually quite good.”

The study also found that in the District of Columbia an individual must have six years’ experience, pay $925 in fees, and pass an exam to become an interior designer.

“That’s a lot of money for throw pillows,” Keller said.

In Tennessee, you have to go through 70 days of training, pass two exams, and pay $140 just to be a hair shampooer.

In Michigan, a worker must pay $750 to get permission to become a “slot key person”—the guy or gal who handles complaints from slot machine players and verify jackpots.

Designers Need Six Years of Training

In Louisiana, interior designers must have six years of training. To install home entertainment systems, you have to pass two tests. To be an auctioneer, you must pay $475. You have to pay $225 to sell flowers and $125 to trim trees. And you have to pass two exams to be a terrazzo contractor.

Contractor requirements are the big reason New Mexico finished 12th-highest in licensing burdens. The state requires a two-year apprenticeship to become a general construction contractor. Only one-third of the states that license contractors require any experience to work as a commercial or general contractor.

Defenders of the licensing system say it’s necessary to protect the public health and prevent consumers from getting ripped off.

In Indiana earlier this year, a bill to reduce license requirements failed. In the Minnesota legislature, labor unions and trade associations rallied against a 2012 bill aimed at relaxing license requirements.

Arizonaans Lose $600M Annually

Keller didn’t have numbers for New Mexico, but in his home state of Arizona excessive licensing requirements account for an annual estimated $600 million in lost income and wages to the state’s economy.

“The licenses are on the books because members of the regulated industries are knocking on the door of legislators … to fence out their future competition,” Keller said.

Some states have made changes. According to the institute’s study, when Mississippi replaced its cosmetology-license requirement for African hair-braiders with what it called a “modest license requirement,” 300 new braiders registered with the state.

“[I]n the 1950s only one in 20 workers in the nation needed government permission to start a job. Today, it’s closer to one in three.”

Arizonans Lose $600M Annually

In Louisiana, interior designers must have six years of training. To install home entertainment systems, you have to pass two tests. To be an auctioneer, you must pay $475. You have to pay $225 to sell flowers and $125 to trim trees. And you have to pass two exams to be a terrazzo contractor.

Contractor requirements are the big reason New Mexico finished 12th-highest in licensing burdens. The state requires a two-year apprenticeship to become a general construction contractor. Only one-third of the states that license contractors require any experience to work as a commercial or general contractor.

Defenders of the licensing system say it’s necessary to protect the public health and prevent consumers from getting ripped off.

In Indiana earlier this year, a bill to reduce license requirements failed. In the Minnesota legislature, labor unions and trade associations rallied against a 2012 bill aimed at relaxing license requirements.

Arizonaans Lose $600M Annually

Keller didn’t have numbers for New Mexico, but in his home state of Arizona excessive licensing requirements account for an annual estimated $600 million in lost income and wages to the state’s economy.

“The licenses are on the books because members of the regulated industries are knocking on the door of legislators … to fence out their future competition,” Keller said.

Some states have made changes. According to the institute’s study, when Mississippi replaced its cosmetology-license requirement for African hair-braiders with what it called a “modest license requirement,” 300 new braiders registered with the state.

Rob Nikolewski (rob@nmwatchdog.org) reports for New Mexico Watchdog. Used with permission of watchdog.org, where an earlier version of this article appeared.
Case of Monks vs. Bureaucrats
Could Bury Occupational Licensing

By Mary Petrides Tillotson

The U.S. Supreme Court may decide the fate of occupational licensing laws, which require government-approved licenses for scores of occupations ranging from hairstylists to geologists, depending on the laws of a particular state.

The number of occupations requiring state licenses has soared in the past 50 years and so has the criticism against them in free-market circles.

Now the Supreme Court may weigh in to settle a dispute between an order of Benedictine monks in Louisiana and the Louisiana State Board of Embalmers and Funeral Directors. The justices are likely to decide by October whether they will take the case. A ruling could have a big impact on state licensing laws.

After their casket-making business was shut down because of a state law requiring a funeral director’s license to sell caskets, Benedictine monks at Saint Joseph Abbey in Covington, Louisiana in 2010 sued the state to strike down the law. The monks have won in the U.S. Fifth District Court and the U.S. Fifth Circuit Court of Appeals. The Louisiana State Board of Embalmers and Funeral Directors in July filed a “cert” petition asking the Supreme Court to review the lower court decisions because there is a split among federal courts regarding occupational licensing laws. The U.S. Fifth and Sixth Circuit Courts have ruled against them, but the U.S. Tenth Circuit has upheld them, ruling they represent a legitimate state interest.

“If the court does grant cert, ... that would be significant, not just for the monks in this case, and not just for the funeral industry, but in a lot of cases,” said Darpana Sheth, an Institute for Justice attorney who is representing the monks.

Economic Barriers

To become licensed funeral directors, the monks would be required to take several courses, pay fees, pass a test, learn about embalming, and outfit their store with embalming equipment, Sheth said.

“It erects this enormous barrier so people can’t just simply sell caskets,” she said. “By requiring this licensing regimen, it keeps out other competition and protects funeral directors from competition.”

Public health and safety issues are often invoked to support licensing laws, but that justification doesn’t make sense, she said, especially in this case, because Louisiana doesn’t require a casket for burial.

“That shows the absurdity of some of these laws. That is obviously not intended to protect anybody. I’m not sure what it is we’re trying to protect when you’re talking about a dead body,” said Byron Schlomach, chief economist at the Goldwater Institute and author of “Six Reforms to Occupational Licensing Laws to Increase Jobs and Lower Costs,” published last year by the Goldwater Institute.

Reverse Robin Hood Effect

Licensing laws like this one make it more difficult for people to enter occupations, Schlomach said. Those who are already well-off can afford the classes and fees required for licensing, but those with lower incomes will have a harder time entering the occupations. In addition, the higher costs of licensed services make them less affordable.

“If you have a modest income and you need a haircut, you’re paying more than you would have to otherwise,” Schlomach said. “It’s a redistribution in the opposite direction than people are used to thinking about it.

“When it comes to barbering and cosmetology, that’s one of the least justifiable licenses that there is, but it’s almost entirely, universally common,” he said. “The fact is, a lot of people could easily have a natural talent for cutting hair, for example, and look in a book and understand real quickly different styles and basically teach themselves how to do it, but if you have a barber school or a cosmetology school, you can’t dare let the licensing law lapse because as soon as it does, there’s no demand for your school, or much less demand.”

No Safety Advantages

Occupational licensing laws amount to economic protection for those who are already licensed, Schlomach said, and they generally don’t add to public safety.

“They always couch the argument in consumer protection—we’re going to pass this law for your own good, and everyone will be safer. They always tell hypothetical stories, occasionally actual stories, of where someone was harmed, but there’s no real evidence, even in these stories, that if someone was licensed the harm would have been prevented,” he said.

“Even with the licensing law, someone can be neglectful. There is no guarantee that because of a licensing law, some manicurist isn’t going to let their tools get soiled and somebody will end up with an infection,” he said.

Every state has some occupational licensing requirements, and at least one state requires licenses for interior design.

“I guess color-clashing can kill,” Schlomach said. “I’m not quite sure how that works.”

Morris Kleiner of the University of Minnesota documented the surge in occupational licensing in 2008, when he reported one-quarter of the U.S. workforce was required to obtain a state license, up from just 5 percent in 1950.

The Institute for Justice, which is representing the monks in their lawsuit against Louisiana, last year studied 102 low- to moderate-income occupations that are licensed in at least one state. The institute reported Louisiana licenses 71 of the 102 occupations, more than any other state, followed by Arizona (64), California (62), and Oregon (59).

Mary Petrides Tillotson (mary.c.tillotson@gmail.com), a former Michigan reporter, now writes from Front Royal, Virginia.
Cigarette Smuggling Stubs out Wash. Tax Revenue

By Shelby Sebens

The State of Washington has a smuggling problem, exacerbated by a large tax gap with its neighbors.

The state’s tax on cigarettes is $3.02 a pack, compared to $1.18 in Oregon and 57 cents in Idaho. In the border cities of Washington, the ease of hopping the state line for cheaper smokes is just too tempting for some.

Washington's Department of Revenue estimates the state lost about $376 million in tax revenue in 2012 to cigarette tax evasion. An estimated 35 percent of the cigarettes in Washington are contraband.

In Spokane, officers of the Washington State Liquor Control Board recently busted two shops for selling cigarettes without the Washington tax stamp.

Stores’ Strategies

Lt. Rod Mittman of the liquor board’s enforcement division explained the process used by two stores that recently got caught selling smuggled cigarettes.

- Step 1: Drive 20 miles to Idaho.
- Step 2: Buy 444 packs of cigarettes (the number of cigarette cartons confiscated by liquor control board officers).
- Step 3: Remove Idaho state tax stamp.
- Step 4: Sell cigarettes tax-free, in the open, as if nothing were amiss. (“It was all out in the open,” Mittman said.)
- Step 5: This step depends on the luck of the store: You either get away with it or you don’t.

In the case of Bongs Grocery and Deli and the Super C Store, a citizen complained, leading to an investigation and criminal citation and confiscation of the smuggled cigarettes. Stores that smuggle cigarettes also risk losing their administrative license to sell tobacco, Mittman said.

Representatives from Bongs and Super C could not be reached for comment.

Nationalwide Black Market

High cigarette taxes, intended to discourage the unhealthy smoking habit and raise state revenue, have created a black market for cigarette sales across the country—from people sneaking cartons from states with lower taxes to a crime-plagued industry fueled by an influx of international cigarettes costing as little as 20 cents per pack.

A study by the Mackinac Center for Public Policy in January found cigarette taxes in some parts of the country are so high they create a “prohibition by price,” which has led to a spike in smuggling-related criminal activity. Mackinac found the black market grows as taxes rise.

New York had the highest number of smuggled cigarettes in 2011—about 61 percent of the total market. New York also has the nation’s highest state cigarette tax at $4.35 per pack, plus another $1.50 levied in New York City.

Faster than Cops

In Washington, the smuggling is running faster than enforcement officers can keep up.

“There’s more out there than we find,” Mittman said.

When asked if Washington should lower its tax, Mittman said, “the disparity of the taxes adds to the problem.” But he added it would help if Oregon and Idaho raised their taxes because he doesn’t see Washington moving toward a decrease.

Shelby Sebens (shelby@northwestwatchdog.org) reports for NorthwestWatchdog.org, where a version of this article first appeared.
Despite Hopes, Illinois Might Save Nothing in Medicaid

By Benjamin Yount

Illinois had hoped to shave hundreds of millions of dollars from its budget by paring the Medicaid rolls before next year’s Obamacare-fueled expansion, but with the high cost of the consulting firm conducting the Medicaid study and less-than-spectacular results, it’s not clear the state will save any money.

In the first seven months of 2013, the private company hired to “scrub” the rolls has found about one in three persons enrolled in the government health care program shouldn’t be.

Put another way, for every person booted from Medicaid, Illinois keeps two people in the expensive program, with hundreds of thousands more likely to be added in 2014.

‘Unlikely to Be Financial Windfall’

“Although the Medicaid rolls needed housekeeping, this project is unlikely to be the financial windfall advocates claimed,” said Kelly Jakubek, a spokeswoman for the Illinois Department of Healthcare and Family Services (HFS).

Illinois lawmakers had hoped to save $350 million by double-checking Illinois’ 2.7 million Medicaid patients and removing those who don’t qualify.

Illinois’ Medicaid chief, Julie Hamos, who is also the state’s HFS director, said earlier this year she hoped to save $150 million by cleaning up the rolls.

Illinois will spend about $78 million to have Maximus, a Virginia-based consulting firm, review the Medicaid program. Maximus has analyzed about 195,000 cases and recommended Illinois remove more than 101,000 residents from Medicaid.

So far in 2013, HFS has decided to cancel 43,662 Medicaid cases, while keeping or changing 84,967 people. HFS still has to act on another 65,000 or so cases.

Quickly Back On Medicaid

But even someone who has been removed from Illinois’ Medicaid program is not completely cut off.

“One, you add people to the system, it’s very difficult to take them off,” said state Sen. Dave Syverson (R-Rockford).

Syverson said he has “concerns” about the number of people who have been removed from Medicaid and the lack of any concrete savings figures.

“We need to make sure that we have a strict system in place, otherwise we’re going to be caught financially short moving into 2014,” Syverson added.

Hundred of Thousands Newly Eligible

Illinois will expand Medicaid to cover between 500,000 and 500,000 newly eligible people next year as part of Obamacare.

“If we add people to (the Medicaid expansion) who are not eligible, will the federal government pass that cost back to the state?” Syverson asked.

Illinois’ Medicaid scrub is supposed to take two years, but it is less clear who will be doing the work.

Earlier this summer an arbitrator ruled in favor of Illinois’ largest public employee union, the American Federation of State, County, and Municipal Employees, saying the state violated its contract by awarding the Medicaid-scrubbing to Maximus.

AFSCME wants Illinois to hire 100 new public employees to finish the two-year review.

Jakubek said the state is still debating whether to appeal.

Benjamin Yount writes for Illinois Watchdog. Used with permission of watchdog.org

Seven Illinois Public Universities Hit With Credit Downgrades

By Steve Stanek

Moody’s Investors Service has downgraded the credit ratings of seven public universities in Illinois.

Illinois state government already has the worst credit rating of any state in the nation. And the largest city in Illinois—Chicago—recently saw the credit rating on more than $8 billion of its general obligation debt dropped a nearly unprecedented three levels at one time by Moody’s.

The downgrade of Illinois universities, announced August 9, came with a warning that further downgrades of university credit ratings could come if the state government does not resolve problems in its worst-in-the-nation government pension system, conservatively estimated to have $100 billion in unfunded liabilities.

The downgrades affect the University of Illinois, Eastern Illinois University, Governors State University, Illinois State University, Northeastern Illinois University, Southern Illinois University, and Western Illinois University. Only Northern Illinois University was able to maintain its rating. Most of the $2.24 billion in debt the universities currently hold belongs to the University of Illinois, which has $1.56 billion in debt.

If any of the universities borrows more money, it likely would have to pay higher rates of interest because of the lower credit ratings. This soon could happen. The University of Illinois is preparing a $77 million bond sale to fund a renovation project at its hospital in Chicago.

Moody’s pinned much of the blame for the lower credit ratings on the state’s dismal pension situation.

“If pension reform is passed, UI may need to fund a portion of its pension expense,” Moody’s wrote in its report on the University of Illinois, which saw its rating decline from Aa2 to Aa3. “If pension reform fails to be enacted, we expect continued pressure on state operating appropriations.”

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.

“In the first seven months of 2013, the private company hired to ‘scrub’ the rolls has found about one in three persons enrolled in the government health care program shouldn’t be.”
A new annual fee charged to health insurance plans and companies that self-insure took effect July 31. The fee was created by the federal Affordable Care Act and will be used to fund a new federal initiative designed to study the effectiveness of health treatment and outcomes. Insurance companies and employers that self-insure will be charged $1 per person covered by their insurance plans.

“It’s something new, so I think there has been a fair amount of confusion and questions about how does this apply to me,” said Kevin Wadle, tax director for Clifton Allen Larson, a national public accounting firm based in Minneapolis. “Employers, including small employers, are being burdened by taxes and insurance costs. It’s another one of these nickel-and-dime taxes in the law,” said Cynthia Magnuson-Allen, spokeswoman for the National Federation of Independent Business, which is lobbying to repeal the health care law. The IRS does not have projections for how much revenue the new $1 per person fee will generate, but it will be used to fund the Patient Centered Outcomes Research Initiative, which will study the effectiveness of treatment options and provide analysis of outcomes for Medicare and private insurance.

According to the PCORI Web site, it expects to receive $3.5 billion between now and 2019 to fund operations. It already has handed out $159.3 million for 126 research projects in 33 states, according to Christine Stencel, a spokeswoman for PCORI. “By generating high-quality, evidence-based information about healthcare options, PCORI will help patients and their families, payers and purchasers, clinicians, and other stakeholders make better informed health and healthcare decisions,” Stencel wrote in an email.

### Rising Fee

The per-person fee will double to $2 in 2014, and after that it will be set by the federal government on an annual basis, meaning it could go even higher, Wadle said. The fee is scheduled to end after 2019, when PCORI’s charter expires. The new fee comes on the heels of the much-criticized medical device tax, which kicked in earlier this year. That 2.3 percent tax is charged to manufacturers and importers on the sales of certain medical devices.

By Eric Boehm

By Alan Cole

The standard deduction makes itemized deductions irrelevant to the majority of taxpayers. Itemized deductions are claimed by only 32.1 percent of taxpayers overall, and standard deduction filers outnumber itemizers in every single state. The standard deduction, then, does not make much sense if you believe itemized deductions are useful, valuable adjustments to the tax base. Why wipe out those effects for two-thirds of taxpayers?

The standard deduction makes a lot of sense, though, if you believe itemized deductions are arbitrary and confusing. In that case, the standard deduction restores some fairness and reduces paperwork, bringing the tax code more in line with our Tax Foundation Principles of Sound Tax Policy—particularly, neutrality and simplicity.

The standard deduction is an interesting half-step toward eliminating itemized deductions, suggesting that America is actually quite ambivalent about them.

Alan Cole (amc@taxfoundation.org) is an economist at the Tax Foundation’s Center for Federal Tax Policy. Reprinted with permission of the Tax Policy Blog at taxfoundation.org/blog.

### Standard Deduction Undermines Case for Itemized Deductions

**By Alan Cole**

Every year, individual American taxpayers choose between itemized deductions—tax deductions for certain specific sorts of expenses—or the standard deduction, which is a flat amount based on filing status. The standard deduction has a certain logic to it. You wouldn’t want to leave out the regular folk who don’t have any cool itemized deductions, would you? It seems like a compassionate, fair thing to do.

On further inspection, though, the standard deduction and itemized deductions are intellectually incompatible. The entire point of itemized deductions is to award tax relief only to people who spend their money in particular ways. The standard deduction, for better or for worse, undermines that concept. It awards tax relief to people who don’t spend their money in those particular ways.

In the end, the standard deduction makes itemized deductions irrelevant to the majority of taxpayers. Itemized deductions are claimed by only 32.1 percent of taxpayers overall, and standard deduction filers outnumber itemizers in every single state.

The standard deduction, then, does not make much sense if you believe itemized deductions are useful, valuable adjustments to the tax base. Why wipe out those effects for two-thirds of taxpayers?

The standard deduction makes a lot of sense, though, if you believe itemized deductions are arbitrary and confusing. In that case, the standard deduction restores some fairness and reduces paperwork, bringing the tax code more in line with our Tax Foundation Principles of Sound Tax Policy—particularly, neutrality and simplicity.

The standard deduction is an interesting half-step toward eliminating itemized deductions, suggesting that America is actually quite ambivalent about them.

Alan Cole (amc@taxfoundation.org) is an economist at the Tax Foundation’s Center for Federal Tax Policy. Reprinted with permission of the Tax Policy Blog at taxfoundation.org/blog.

### Confusion Over New Obamacare Fee

“By generating high-quality, evidence-based information about healthcare options, PCORI will help patients and their families, payers and purchasers, clinicians, and other stakeholders make better informed health and healthcare decisions,” Stencel wrote in an email.
How Much Has Detroit’s Police Force Been Cut? Who Knows

By Tom Gantert

Soon after the city of Detroit filed for bankruptcy, many blogs and news sites began running “facts” about the city. One “fact” repeated often was that “the size of the police force in Detroit has been cut by about 40 percent over the past decade.”

Although it makes for interesting reading, just how much the police department has been cut is not easy to determine ... and is another example of the city’s dysfunction.

For example, the city’s 2003 Comprehensive Annual Financial Report states there were 4,810 uniformed police officers that year. However, the city’s 2012 CAFR lists the city as having 3,981 uniformed police officers in 2003 and then two pages later has the city with 3,965 uniformed police officers in 2003.

And the confusion is more than just an accounting hiccup.

The report of the city’s Emergency Manager Review Team stated regarding police operations, “operational dysfunction contributes to the city’s serious financial problem.”

‘No Reliable Information’
The emergency manager’s report found the city’s police department had about 2,030 employees in 2012. However, city officials and police department officials couldn’t agree as to what those 2,030 employees did. City officials stated only 33 percent of the police department’s employees were involved in patrolling the city. The rest were involved in “ancillary administrative functions” such as payroll.

Police department officials claimed 68 percent of its workforce was involved in patrol work and another 15 percent was involved in investigations.

“The Review Team could not resolve this discrepancy because the City’s administration had no reliable information concerning what staffing levels are, or should be, within the Police Department,” the report stated.

Basic Questions
James Hohman, a fiscal policy analyst for the Mackinac Center for Public Policy, said the city of Detroit has had problems getting the most basic pieces of information accurate.

“They’ve been unable to answer the basic questions about what they are doing and how much it costs,” Hohman said.

Emergency Manager Kevyn Orr is making progress, Hohman said.

“Orr is getting a handle on fixing these problems and his plan is encouraging. They are closer to having a functional government now than they have been in the past decade.”

JAMES HOHMAN
FISCAL POLICY ANALYST, MACKINAC CENTER FOR PUBLIC POLICY

Local Government Tax Collections Hit Record High, Census Shows

By Melissa Daniels

Local and state governments are collecting more tax money from individuals and businesses than ever.

The U.S. Census Bureau in July released its State and Local Government Finance Summary, examining fiscal 2011 numbers. State and local governments collected a record-setting $3.4 trillion in revenue from all sources that year.

Of that figure, $2.6 trillion is considered “general revenue,” including a record-high $1.3 trillion in tax collections. According to the Census report, several of these indicators are signs of improvement for state and local government finance: more evidence of a slowly recovering economy.

Big Rise in Income Tax
It also means more money from taxpayers: Individual income tax revenue collections went up by 9.5 percent to $284 billion in 2011. Corporate income taxes increased 10.7 percent, to $48.5 billion.

“Tax revenue increased in 2011 for the first time in 2 years, led by gains in sales and gross receipt taxes and individual income taxes,” the report noted. “Additionally, unemployment compensation declined for the first time in 4 years.”

The overall revenue boost also came from gains in insurance trust revenue, including pension funds and programs such as unemployment compensation and Social Security. That revenue grew by nearly 30 percent, from $512.8 billion in 2010 to $663.6 billion in 2011, marking a second straight year of increases.

Melissa Daniels writes for the Pennsylvania Independent. Used with permission of Watchdog.org.

What’s all the racket?

That sound you hear is the environmental “roosters” and their frightening predictions of disaster. Don’t listen. As Dr. Rael Jean Isaac writes in this book, today’s environmentalists are using fear of global warming to destroy the foundations of modern civilization.

1-10 copies $8.95 per copy
11-50 $7.95
51-100 $6.95
101+ $5.95

To order call 312/377-4000 or order online at heartland.org today and receive this special pricing!

Published 2012 114 pages

IDEAS THAT EMPOWER PEOPLE
Latest Delay Exposes FATCA’s Fatal Flaws

By Andrew F. Quinlan

Since its passage in 2010, implementation of the Foreign Account Tax Compliance Act has been delayed multiple times. Most recently, the Treasury Department pushed back six months the beginning of FATCA’s withholding penalty for noncompliant institutions, from January 1, 2014 to July 1, 2014. This newest delay is further proof FATCA is poorly conceived and unworkable and should be repealed.

Under the guise of catching tax evaders, a dubious claim given the law lacks any targeting of people or places prone to evasion, FATCA treats anyone who invests overseas as a criminal. Without need for a warrant, the government demands that foreign institutions spy on their U.S. clients while expecting individuals to report their entire holdings to the government.

In light of the ongoing backlash over multiple instances of government invading citizens’ privacy rights, the complete erosion of financial privacy rights of anyone working or investing overseas should be cause for similar uproar.

Fighting the FATCA Menace

FATCA’s requirements that foreign financial institutions act as deputy tax collectors for the U.S. government were flawed from the start.

The U.S. government lacks the moral and legal authority to justify the legislation, much less the resources to enforce the law as written. It relies instead on the nation’s dominant position and a might-makes-right mentality to strong-arm foreign governments into enforcing the law on their own institutions.

Specifically, the federal government has sought to sign “intergovernmental agreements” (IGAs) to outsource the invasion of privacy of U.S. citizens to foreign governments, through whom the Treasury Department seeks to launder the sensitive information of Americans.

Intergovernmental Agreements Falter

Scrambling to get FATCA implemented before Congress realizes the extent of its error and reverses course, Treasury officials have done their best to cajole foreign governments into relinquishing their sovereign authority. They’ve relied heavily on disinformation to give the effort an air of inevitability, and they have been feeding international media dubious claims such as that there are 50 IGAs just around the corner. But the truth is far different.

As James Jatras of RepealFATCA recently noted, Treasury “expected to sign 17 IGAs by the end of 2012. Instead, they had four. Here we are more than halfway through 2013, and they only have nine—barely half of their 2012 year-end target.”

Opposition Gaining Ground

The latest delays provide yet more time for opposition to FATCA to solidify. As awareness of the law grows, so too does the backlash against the government’s radical overreach.

In the past few months, the Center for Freedom and Prosperity spearheaded a coalition of 22 free-market, taxpayer-protection, and grassroots organizations that endorsed legislation introduced by Sen. Rand Paul (R-KY) to repeal FATCA.

Congressman Bill Posey (R-FL), a member of the House Financial Services Committee, sent a letter to Treasury Secretary Jacob Lew questioning the legitimacy of the IGA process and calling for a moratorium on FATCA enforcement.

And on July 17, Colleen Graffy, a former deputy assistant secretary of state, blasted FATCA in a Wall Street Journal op-ed.

Tax collectors at the Treasury Department will never openly admit the unprecedented power and authority granted by FATCA was ill-advised, but their repeated delaying of the law speaks louder than words. FATCA is a mess, and Congress needs to step in and spare the world from its disastrous consequences.

Andrew F. Quinlan (info@freedomandprosperity.org) is president and CEO of the Center for Freedom and Prosperity.

By Bartlett D. Cleland

A self-proclaimed Tea Party member, Mayor Pro Tem David Hagan of Victoria, Texas is trying to pressure Congressman Blake Farenthold (R-Corpus Christi) into supporting the so-called Marketplace Fairness Act, which would radically expand the power of government, harming Texas small businesses along the way.

But Hagan is wrong about virtually every point he raises, and in addition he completely misses the big picture.

In National Bellas Hess v. Department of Revenue (1967) and reaffirmed in Quill Corp. v. North Dakota (1992), the U.S. Supreme Court required that a company (in this case a mail-order company) must have more than a minimal (de minimis) physical presence in a state, usually a store or shipping center or even a team of salespeople, before that merchant can be required to collect that state’s sales taxes.

The Quill standard was crafted because the court found collecting sales taxes in multiple jurisdictions in several states was too complicated, and unfair if the retailer did not have a real physical presence. Without this physical nexus standard, states would be able to tax citizens of other states, and those citizens would have no democratic (electoral) recourse. In addition, the Court found the state tax schemes too complex for remote sellers and thus barriers to interstate commerce.

So ordering from a catalogue, when the merchant had no physical presence in the state, has never triggered an obligation on the seller’s part to collect taxes (the taxes have always been due and payable by the purchaser). Today e-commerce follows that same rule.

Supporting the legislation Hagan calls for would allow states, for the first time, to tax those without any real, physical connection to the state. In turn, the state would then have the option of collecting tax from, and auditing, those who have no physical presence in that state. So, bottom line, the state of California would begin enforcing its tax laws on Texas businesses.

Bartlett D. Cleland is policy counsel with the Institute for Policy Innovation.
Report Offers Solutions for Pension Reforms

By Steve Stanek

The bankruptcy filing of Detroit and the nearly unprecedented triple-dowgrade of Chicago’s general obligation debt by Moody’s Investors Service this summer have garnered national headlines, but the pension problems that were cited as major reasons for the moves exist in state and local governments across the country.

The Economist magazine in late July published “The Unsteady States of America,” which estimated states’ pension systems are under-funded by at least $2.7 trillion, or 17 percent of the nation’s total annual economic output. But that estimate may be too low. The Economist noted, “By the states’ own estimates, their pension pots are only 73% funded. That is bad enough, but nearly all states apply an optimistic discount rate to their obligations. … If a more sober one is applied, the true ratio is a terrifying 48%.”

It’s with these problems in mind that the American Legislative Exchange Council has released “Keeping the Promise: State Solutions for Government Pension Reform,” a 37-page report on how states and local governments can deal with these pension issues in ways that protect taxpayers and government employees. The author is Dan Liljenquist, a former Utah state senator who has toured most of the country addressing government pension reform. He served as chairman of Utah’s Retirement Committee and drove pension reforms there that put the state’s system on good financial footing.

“The title of the report is by design,” Liljenquist said. “The reform principle we need to lead with is workers did not cause the market collapse [in 2008] and the big underfunding problems. The number one goal should be to make sure we can meet commitments.

“But these defined benefit systems are unstable because of [overly optimistic] rates of return. We cannot guarantee returns without significant deferred risk. We must treat the problem for what it is. It’s like a chemical spill. First we cap the spill and then we start cleanup.”

DAN LILJENQUIST
FORMER UTAH STATE SENATOR
PENSION REPORT AUTHOR

Internet Info


California Legislators Propose $11 Billion in Higher Taxes and Fees

By Salvador Rodriguez

While refusing to take responsibility for more than $100 billion in unfunded pension and retiree health care obligations, California legislators spent the current legislative session coming up with new ways to extract money from their constituents.

According to recent research by the California Taxpayers Association (CalTax), California legislators have introduced approximately $1 billion in tax increases and new or higher fees.

CalTax identified 66 pieces of legislation introduced this session that would increase the financial burden on Californians. Fortunately for taxpayers, only five tax and fee increases of the 66 proposed have been passed so far. The five increases amount to $355.6 million in additional burdens to taxpayers. The largest of these is SB 78, which “imposes a sales tax on gross receipts of a Medi-Cal managed care plan, as defined” in the statute. This one-time tax is estimated to cost taxpayers $340 million.

The pending measures include:

- SB 391: “Imposes a new $75 recording fee for every real estate instrument, paper, or notice required or permitted by law to be recorded. The funds would be used for affordable housing, and for administering housing programs.” (Cost: $300 million)
- AB 8: “Extends and authorizes increases in several vehicle-related taxes and fees to fund various programs to encourage use of alternative and renewable fuels.” (Cost: $264 million)
- SB 700: “Imposes a new 5-cent tax on every single-use carryout bag provided to customers at any retail establishment...” (Cost: $169.9 million)
- AB 187: “Imposes a new 10 percent tax on ammunition...” (Cost: $92.4 million)
- AB 760: “Imposes a new tax of 5 cents per bullet on ammunition sold in this state.” (Cost: $55 million)
- SB 782: “Requires owners of sexually oriented businesses to pay a new $10 tax for every customer entering the business. The tax would be administered by the Board of Equalization, and funds would be deposited into a new fund to pay for sexual assault prevention programs. The tax would sunset in 2024...” (Cost: $35 million)

The legislation identified by CalTax does not include a group of constitutional amendments proposed in the Senate and Assembly that would make it easier for local governments to pass tax increases and/or bond measures.

Salvador Rodriguez (salvador.rodriguez@reason.org) is a policy intern at Reason Foundation. Used with permission of the Out of Control Policy blog at reason.org.
Detroit Offers a Powerful Lesson on Property Taxes

By Christina DiSomma

Detroit recently followed in the footsteps of several other U.S. cities in filing for bankruptcy. Theories abound as to the root of the problem, but one cause cannot be ignored: taxes.

Detroit boasts some of the highest tax rates in the nation, and its residents already face the highest income tax rates allowable by Michigan law. Overall, those in Detroit struggle under the highest per-capita tax burden in the state, although an unusually high percentage of the city’s population lives below the poverty line.

Property taxes make up a huge portion of this tax burden for property owners in Detroit. In 2011, the city ranked first in a study of property tax rates in the 50 largest U.S. cities, and assessments of the properties themselves tend to run high.

Assessed at 10 Times Value

A series of articles in the Detroit News found many houses are assessed at ten times their actual value, and appeals can sit in limbo for an extended period before being resolved.

To add insult to injury, many Detroit residents don’t feel they’re getting their money’s worth. A number of corrupt government officials, including former mayor Kwame Kilpatrick, and soaring government costs took their toll on city services, eventually becoming evident in rising crime and failing schools.

The housing crash and the loss of most of the city’s manufacturing jobs—the crime rate and poor business climate having largely driven out the automotive industry—were the final straw for many Detroit natives. Upper- and middle-income families began to leave the city in droves.

Naturally, this only made the tax revenue situation worse. As the population sank, so did the amount of money coming into city coffers. Recovery for Detroit might have happened, if the business climate could have supported recovery.

But mismanagement again took over, and regulation and taxes increased. The real estate market could not bounce back, as city law requires all back taxes be paid on every property bought at foreclosure—the only exception is for a select few pieces of real estate auctioned once a year by the city.

No Reason to Buy

So when the housing market plummeted and Detroiter began to flee the city in the wake of lost jobs and exponential increases in crime, no incentives existed for speculators to purchase foreclosed properties for investment. As a result, the real estate simply sat in the hands of banks and the city and eventually became derelict.

Those who did own or buy properties found themselves with an entirely new set of problems. As Detroit’s finances began to collapse, the tax-collecting infrastructure fell through with it. The city eventually began forcing employees to take an unpaid day of leave every two weeks, adding still another complication to the process.

One business attempted to pay $25,000 worth of property taxes only to find the collection office was closed and no one was there to receive payment.

50 Percent Collection Level

That scenario also assumes residents are receiving tax bills at all—which many are not. With this sort of bureaucracy in place, is it any wonder only 50 percent of property taxes in 2011 ended up in city coffers?

High taxes certainly aren’t the only thing that drove Detroit to bankruptcy. ... [But] the crippling effect of taxes can’t go on forever, even in a healthy economy.

President Obama’s approval numbers are now hitting record lows, yet his critics are often written off as simple-minded ‘Obama haters.’ It doesn’t wash. The problem is a pattern of presidential lawlessness.

“Last time we checked, the Constitution requires the president to ‘faithfully execute the law.’ That’s no editorial opinion, but Article 2, Section 3, Clause 5 of the U.S. Constitution, which states that ‘(The President) shall take care that the Laws be faithfully executed.’

“Our founders conceived and established in that document three co-equal branches of government to preserve our individual liberty and restrain the unlimited power of government. But this president and his administration have routinely ignored the divisions of power between the presidency, the Congress and its legislation, and the Supreme Court and its rulings.

“Constitutionally, the president has the authority to check the legislative branch by recommending legislation to be passed by Congress or through the presidential veto. But he cannot legislate through executive fiat and he can’t pick and choose which parts of the law he will comply with or decline. Nor can he defy judicial rulings from the highest court in the land.

“But that’s what he’s done. In just the latest example, President Obama’s Attorney General Eric Holder has directed federal prosecutors to conceal the amount of drugs seized during an arrest to circumvent mandatory minimum sentences set by Congress in 1986.

“Whether one agrees with that law or not, its legal authority lies within the constitutional powers of Congress, not the executive branch.”

— Investor’s Business Daily editorial, August 16, 2013

Christina DiSomma (cdisomma@ntu.org) is with the National Taxpayers Union Foundation, the research and educational arm of the National Taxpayers Union. Used with permission of ntu.org.
Consumers for Health Care Choices

DEDICATED TO PUTTING CONSUMERS IN THE DRIVER’S SEAT OF THE HEALTH CARE SYSTEM

The U.S. has a health care system that is bureaucratic, inefficient, inconvenient, of questionable quality, and far too expensive. Consumers for Health Care Choices, a project of The Heartland Institute, is dedicated to putting consumers in the driver’s seat of the health care system, as we are in all other aspects of our lives. We are small business owners, physicians, insurance brokers, patient advocates, economists, and concerned health care consumers united by the urgency of transforming health care – NOW! Our weekly Consumer Power Report e-newsletter covers a wide range of health policy issues at the federal, state, and local levels.

Subscribe today at heartland.org/subscribe.
Legislators:

Make Us Your New Legislative Aide!

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

Why Join?
Simply, The Heartland Institute delivers what elected officials need. Busy elected officials have little or no staff and need a reliable source of research and commentary on the most important public policy issues of the day. For 29 years Heartland has been that resource.

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

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

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

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

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