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Tax hikes rare among states — so far
 By Pamela M. Prah, Stateline.org Staff Writer

Most states are holding off raising taxes to patch holes in their 2009 budgets, but if you live in Maryland, Minnesota, Maine and New York, you're out of luck.

At least 30 states so far have cobbled together budgets for the 2009 fiscal year that begins July 1 in most states. Many borrowed money, tapped their reserves or cut programs — anything to avoid raising taxes particularly in an election year that includes 11 gubernatorial contests and legislative races in 44 states.

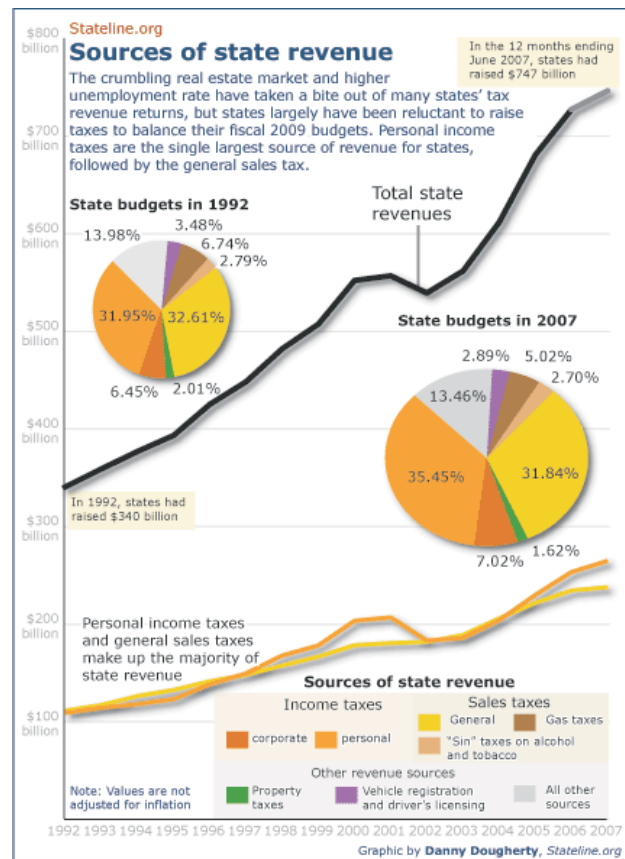
“Most states work extremely hard to avoid the politically explosive tactic of raising taxes,” said Sujit CanagaRetna, a budget expert with the Council of State Governments (CSG).

While new data to be released later this month suggest that overall state tax collections for the first nine months of the current fiscal year are up modestly, in many states the growth is not enough to keep pace with spending, said Robert B. Ward, director of fiscal studies at the Nelson A. Rockefeller Institute of Government, the public-policy research arm of the State University of New York.

Eight states are showing actual declines in overall tax revenues for the July 2007 through March 2008 period – Rhode Island, Florida, Mississippi, South Carolina, Arizona, Oklahoma, Nevada and Oregon. “The experience that states had through the first nine months of this year, of course, has a lot to do with how well or poorly they are positioned for the coming fiscal year,” Ward said.

A handful of states have risked the ire of voters by digging deeper into residents' pockets to keep the revenue flowing and balance 2009 budgets. Consider:

- Minnesota drivers will pay 8.5 cents more for every gallon of gas they put in their car, thanks to a higher state gas tax.
- New York smokers will pay an extra \$1.25 on each pack of cigarettes now that state lawmakers raised the state tax to \$2.75 a pack, the highest in the country.



- Marylanders who earn a million dollars are getting slapped with a new tax rate of 6.25 percent, up from 5.5 percent. The tax replaces a computer-services tax that lawmakers approved in 2007 but repealed this year after widespread criticism that the tax would force tech businesses out of the state.
- In Maine, beer and wine drinkers and soda fans will have a bigger tab now that lawmakers more than doubled excise taxes on those items, with the money directed to the state's health insurance program.
- Illinois increased the sales tax by a quarter percent in Chicago and surrounding counties to avoid cuts and fare increases in public transportation.

New York also became the first to require online retailers such as Amazon that do not have a physical presence in the state to collect sales taxes on purchases New Yorkers make. The state figures it can collect \$50 million from the new requirement. But Amazon and Overstock.com already have gone to court to challenge the law.

Record oil prices, paltry state tax collections and the recent spike in the U.S. unemployment rate — up to 5.5 percent in May from 5 percent in April — have rattled consumers and investors and elevated fears in all but a few energy and farm states that the states' 2009 fiscal budgets will bleed red ink.

Anemic tax revenue returns, also hurt in part by the crumbling real estate market, forced at least 16 states to patch nearly \$12 billion holes in their 2008 budgets, while in at least 23 states, budget gaps totaling at least \$26 billion emerged for their 2009 budgets, the [National Conference of State Legislatures \(NCSL\) reported in April](#).

The Center on Budget and Policies Priorities, a liberal think tank that promotes policies that affect the working poor, recently estimated at least 29 states faced or are facing an estimated \$48 billion in combined shortfalls in their fiscal 2009 budgets, according to a June 9 [report](#).

Unlike the federal government, states cannot run deficits, forcing them to find the money or cut spending to balance their budgets.

Among states still working on their budgets are California, which faces a \$15 billion shortfall, and

New Jersey, where Gov. Jon Corzine (D) wants to pay down at least half of the state's \$32 billion in bonded debt.

A few states raised one tax so that they could cut another. Indiana sales tax went up 1 percent, with the money going to cut property taxes. In Florida, voters this November will decide whether to do the same thing. "The [property-tax swap](#) is a mini-trend that we've been seeing in recent years," said Bert Waisanen, a fiscal expert with NCSL.

More tax hikes could be in the offing. Virginia Gov. Tim Kaine (D) has called lawmakers to a June 23 special session to consider his plan to raise about \$1 billion annually through a series of tax and fee increases that would go for transportation projects. Among his ideas are raising motor-vehicle sales taxes statewide and hiking sales taxes in the traffic-clogged areas of Northern Virginia and Hampton Roads. And in Arizona, voters this November could get a chance to decide whether to raise their sales tax by a penny with the money going for transportation.

Proposals to hike tobacco taxes to raise revenue continue to be popular, appearing in 23 states this year. But New York is the only state to approve it so far this year, according to the Tobacco Merchants Association, a trade group.

"Tobacco is an easy target for revenue-hungry states," said Pete Sepp, spokesman for the National Taxpayers Union, which advocates curbs in state spending. Except if you live in the South. South Carolina Gov. Mark Sanford (R) vetoed a bill in May that would have raised by 50 cents the state's lowest-in-the-nation cigarette tax, currently at 7 cents a pack. Proposals to hike cigarette taxes also died in tobacco-rich Kentucky and North Carolina, but Massachusetts is still mulling an increase.

Tobacco tax hikes are a popular route for state lawmakers, largely because the state can get a hefty chunk of change while also discouraging an unhealthy habit that raises state health care bills. The 50 states and Washington, D.C., collectively generated \$14.5 billion in cigarette tax revenue in fiscal 2007, CSG's CanagaRetna said. Since January 2002, the last time a recession forced states to tighten their belts, 43 states, D.C. and several U.S. territories raised cigarette taxes 75 times, he said.

For some of the same reasons, the adult entertainment industry also is increasingly a target. A bill

in California proposes a 25-percent tax on revenues from strip clubs, porn-shop sales and adult Web sites. Rhode Island also considered a 25-percent tax on food, drinks and admission to adult entertainment clubs. But in Texas, a judge in March ruled that the state's new \$5-per-patron strip club fee is unconstitutional.

Looking elsewhere for money, states are considering an array of ideas to balance their ledgers

without raising taxes. California Gov. Arnold Schwarzenegger (R), for example, wants to borrow against \$15 billion in future lottery profits, while Pennsylvania Gov. Ed Rendell (D) wants to lease the Pennsylvania Turnpike for \$12.8 billion.

Proposal to legalize casino gambling were shot down in Kentucky and Massachusetts, but the Bay State is still considering whether to [add slots to racetracks](#) for additional tax revenue.