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Tax Report: A Tax Revolt Is Quietly Brewing In Some States

By Tom Herman

And to think they used to call it “Taxachusetts.”

On Election Day, Massachusetts will vote on whether to eliminate its state income tax. Advocates hope victory in a place long thought of as a free-spending liberal bastion will pave the way for similar initiatives in other states over the next few years. Critics insist a yes vote would lead to fiscal disaster.

While Americans are focusing on the presidential and congressional races, voters in Massachusetts and other states will decide the fate of dozens of state and local tax and spending issues.

It’s still unclear precisely how many of these issues will be on ballots on Nov. 4. Some still haven’t received final approval from state officials or may face challenges in court. But Kristina Rasmussen, director of government affairs at the National Taxpayers Union, a nonprofit group based in Alexandria, Va., estimates there are more than 60 ballot measures that would have “some significant impact” on taxpayers.

Oregon voters, for example, will decide whether to allow taxpayers to deduct an unlimited amount of their federal income taxes on their state returns. Nevada is expected to vote on a constitutional amendment that would restrict property-tax increases. North Dakota voters may vote on whether to chop the state’s personal income tax in half. And Minnesota will vote on a proposed amendment to its state constitution to raise the state sales tax by three-eighths of a percentage point, with the money going to protect the environment and to benefit the arts.

These and other battles come at a time when many states are struggling to cope with tough economic times. As the national economy’s growth rate has slowed to a crawl, growth in state tax collections generally has withered, intensifying budget strains. “Many states have reduced their revenue forecasts, some many times,” said a recent report by the National Conference of State Legislatures, a Denver-based group. “In a number of states, collections are even below the lowered expectations.”

Since that report was issued last month, “the news has gotten even worse” in several states, says Arturo Pérez, fiscal analyst at the National Conference of State Legislatures.

A recent report by the Nelson A. Rockefeller Institute of Government, the public-policy research arm of the State University of New York,



paints a similarly gloomy picture. The report said state tax revenue rose only 1.7% in this year's first quarter from the same quarter in 2007. That was the third quarterly growth-rate decline in a row — and the slowest pace in five years.

Besides tax and spending issues, voters will pull the lever this fall on a wide range of questions involving social issues, including abortion, affirmative action and same-sex marriage, says Jennie Drage Bowser of the National Conference of State Legislatures. She says more than 123 questions already have qualified for ballots around the nation, with many others awaiting final approval. Most have come from state legislatures or from citizen initiatives.

Here is a look at a few of the most high-profile tax battles:

Massachusetts. The issue is whether to erase the state's income tax in two phases. The 5.3% tax would be sliced in half next year and then disappear entirely the following year. Advocates of repeal are hoping for support from voters worried about tough economic times and angered by bloated government spending. Six years ago, a similar proposal attracted 45% of the vote.

Eliminating this tax "will mean less money in the hands of politicians and will give back an average of \$3,700 to each of 3.4 million workers and taxpayers in Massachusetts — not just once but every year," says Carla Howell of the Committee for Small Government, a nonprofit citizen group battling to repeal the tax. "There are tax-cut activists around the country who are very interested in what we're doing here," she says. "If it does well, we may see copycat initiatives in 2010 and 2012 across the country."

Grover Norquist, president of Americans for Tax Reform, a Washington-based coalition of taxpayers and taxpayer groups opposed to tax increases, agrees. The Massachusetts vote, officially dubbed "Question One," "could be a model for the future" in many other states, he says.

Critics of the proposal say passage would be a major blow. "It would be an absolute disaster for the state," says Michael J. Widmer, president of the Massachusetts Taxpayers Foundation, a Boston public-policy research group funded primarily by employers.

If adopted, "this extreme measure would throw the finances of state and local governments into

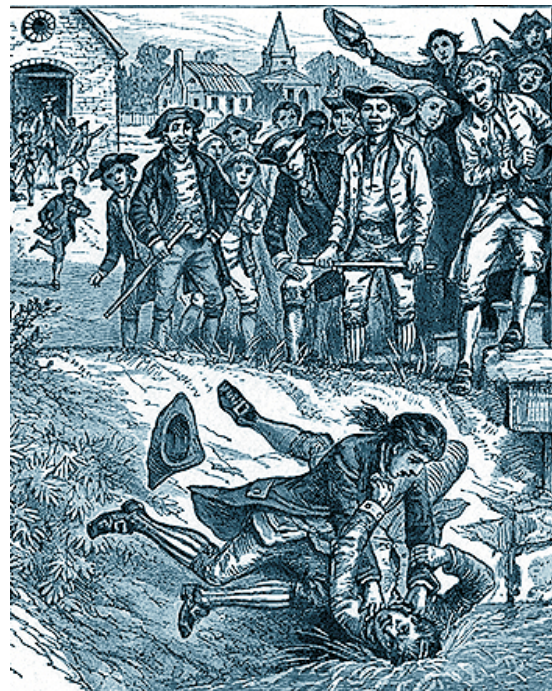
chaos and inevitably lead to major increases in property and sales taxes," Mr. Widmer says.

The state income tax in Massachusetts generated about \$12.5 billion in the latest fiscal year, out of a state budget of around \$28 billion, says Bob Bliss, a spokesman for the state revenue department. State officials haven't said what they'll do if the repeal proposal wins approval and becomes law.

Massachusetts Gov. Deval Patrick, a Democrat, has been "very clear" in his opposition to repeal of the state income tax, says Rebecca Deusser, a spokeswoman. "A cut of this magnitude would severely reduce the ability of the Commonwealth to provide the services that citizens and taxpayers have come to expect from their state government," she says.

"Best guess: It will go down" to defeat because of voter fears that approval would lead to "evisceration of key programs," says Douglas Schoen, a political consultant and author based in New York.

Most states have a state income tax. Seven, including Florida, Texas, Washington and Nevada, have none. Two other states — Tennessee and New Hampshire — don't tax wages and salaries but do tax investment income, such as interest and dividends.



In an earlier tax revolt, Massachusetts farmers fought back during Shays' Rebellion in the 1780s.

Oregon. Few states allow taxpayers to deduct federal income taxes on their state income-tax returns. Oregon is one of them, but it imposes limits on the amount that can be deducted. On state returns for 2008, that limit is generally \$5,600 (or \$2,800 for a married couple filing separately), says a revenue department spokesman.

In November, voters will decide whether to remove those limits and allow unlimited deductions of federal income taxes on state returns.

Gov. Ted Kulongoski, a Democrat, is opposed to the measure, a spokeswoman says. Other critics say the measure, if enacted, wouldn't benefit most Oregonians and would blow a big hole in the budget.

Nevada. Voters are focusing on a proposed constitutional amendment that would impose a new cap on property-tax increases. Generally, the measure would cap property tax at 1% of the taxable value of the home for the 2003-04 fiscal year, and would also limit property-tax increases to only 2% a year (or the cost of living, whichever is less), until the property is sold.

Voters would have to approve the proposal not only this year but also in 2010 in order for it to become effective. Nevada's secretary of state recently certified the proposal for inclusion on the ballot, but it still may face a legal challenge. A spokesman for Gov. Jim Gibbons, a Republican, says the governor "hasn't taken a position at this point" on the proposal.

"We need stable and predictable property taxes," says Sharron Angle, a former state legislator

who heads We the People Nevada, which drafted and is advocating passage of the amendment. She says many voters have complained that their property taxes have risen even though home values have declined. She also says there is interest in several other states, including Arizona, in proposing similar property-tax caps.

Other states. In North Dakota, efforts are being made to place a proposal on the ballot that includes cutting personal income-tax rates by 50%. Colorado will vote on whether to increase the state's sales tax to fund services to people with "developmental disabilities." The state may also vote on major changes to its taxpayer bill of rights law and the manner in which the state funds public education through 12th grade.

In Maine, voters may decide on whether to roll back new taxes on beer, wine and soda. And in Allegheny County, Pa., Friends Against Counterproductive Taxation, a group led by restaurant and bar owners, is trying to place on the ballot a proposal to substantially reduce a stiff tax on alcoholic drinks, dubbed the "drink tax."

"This is as many serious tax measures on the ballot as we've seen" in many years, says Americans for Tax Reform's Mr. Norquist. For more information, see the Web site of the National Conference of State Legislatures (www.ncsl.org³). Also check out www.stateline.org⁴, a nonprofit online news site that reports on state policy and politics and is funded by the Pew Charitable Trusts, a nonprofit organization.