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Voters Will Consider Tax-Related Ballot Initiatives in 23 States

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Voters in 23 states will be considering initiatives and referenda relating to tax issues on November 4. The five most prominent are: (1) Massachusetts's proposal to repeal the state income tax outright, (2) North Dakota's proposal to reduce personal and corporate income taxes, (3) Colorado's proposal to effectively end TABOR spending restrictions, and (4) Oregon's proposal to expand deductibility of federal income taxes, and (5) Maryland's proposal to adopt slots.

This *Fiscal Fact* provides an overview of tax-related initiatives and summarizes general arguments in favor and against. We also provide links to Ballotpedia, an online resource that includes links to legislative language, impartial summaries, and arguments from all sides. We at the Tax Foundation will be monitoring these proposals before and after the 2008 election.

Arizona

Proposition 105 would make it more difficult for tax- and fee-raising initiatives to pass. Currently, such an initiative merely requires a majority of votes cast to pass. Proposition 105 would raise that passage threshold to a majority of *registered* voters, even those who do not vote. (Oregon will be voting on whether to repeal such a requirement.) Proponents say that this ends the incentive to submit initiatives in low-turnout elections where they are more likely to be passed by a vocal minority; opponents argue that a registered voter who fails to vote should not be counted as a no vote against a tax increase.

Arkansas

Proposed Constitutional Amendment 2. Arkansas currently adopts a two-year ("biennial") state budget, and Proposed Constitutional Amendment 2 would shift to a one-year (annual) state budget. Proponents say that a one-year budget rule will be more accurate in predicting revenue; opponents say that a two-year budget rule reduces overspending and results in shorter legislative sessions.

Proposed Constitutional Amendment 3 would establish a state lottery, with the proceeds used for college attendance scholarships. Arkansas is one of eight states that do not have a lottery; a similar measure failed in 2006. Proponents including Lt. Gov. Bill Halter point to programs the lottery revenues would fund. Opponents argue that lotteries are a regressive form of taxation and are accompanied by social costs. This Tax Foundation commentary discusses Measure 3.

California

Local 911 Taxes. Existing local telephone taxes are vulnerable to legal challenge if they were enacted before California required a two-thirds popular vote on such taxes. Many localities have initiatives seeking explicit approval for the taxes, by replacing the current tax with another tax (sometimes at a slightly lower rate). Proponents argue that the funds are needed to pay for emergency services; opponents argue that such taxes, though dubbed "911 taxes," are not usually dedicated to emergency services and are in addition to another state-level 911 tax on telephone bills.

Utility Users Taxes. Many localities have initiatives to impose a new tax on telecommunication services. Such local taxes formerly piggy-backed on a federal tax, but this tax is no longer collected.

Half-Cent Sales Tax Increases. Many localities, most notably Los Angeles County, are voting on measures to increase their local sales tax by a half-cent. If approved, Los Angeles County's sales tax would rise to 8.75%.

Colorado

Amendment 51. Colorado's state sales tax is 2.9%; Amendment 51 would increase this to 3.1% over two years and dedicate the revenue (estimated $185 million annually) raised to developmentally disabled care programs. Supporters emphasize the merits of the care programs, while opponents argue that spending priorities should be reorganized before raising taxes.

Amendment 58. Colorado currently collects $140 million per year in severance taxes on oil and gas production. Amendment 58 would bar oil and gas companies from deducting their property taxes from the severance tax obligations, expand the tax to small wells, and standardize severance tax rates as 5 percent on large companies and zero on small companies. The initiative would require that all the money raised, estimated to be $1.1 billion over four years, be used for college scholarships, wildlife habitats, clean energy, transportation, and water treatment. Proponents highlight the importance of the programs and hold out the hope that higher taxes will not deter production. Opponents argue that the tax burden on oil and gas production would effectively double, and that volatility in energy prices makes dedicating the revenue to new programs unwise.

Amendment 59. In 1992, Colorado voters approved a Taxpayers Bill of Rights (TABOR), which capped state spending according to a formula of population growth plus inflation, unless a referendum approved exceeding the cap. The surpluses which resulted in subsequent years were used for education, saved in a rainy day fund, or refunded to taxpayers. Because TABOR's formula was based only on the previous year's spending, a one-time drop in revenue (during a recession, for instance) would "ratchet" down the cap for subsequent years. This provision was modified in 2005, when voters changed the formula to the highest collection in the last five years and suspended rebates through 2010 (diverting the money to education). Additionally, Amendment 23 requires annual increases in education funding, which with TABOR creates budget pressure. Amendment 59 attempts to address this problem by making permanent the elimination of rebates (with the money going instead to education), and exempt education spending from TABOR's caps. Proponents support the increased education funding and argue that the constitutional reform is needed. Opponents say Amendment 59 effectively repeals TABOR's limits, and that Amendment 23's problems can be addressed in better ways.

Connecticut

Question 1, if passed, would convene a state constitutional convention to consider potential revisions (similar questions are on the Hawaii and Illinois ballots). Supporters pushed the effort primarily to adopt initiative and referendum; opponents argue that the state constitution must be protected. The last state constitutional convention was in 1965.

Florida

Amendment 3 bars including hurricane improvements and renewable energy devices to houses in property tax reassessments, for existing residences only. Proponents say the exemption will encourage the targeted improvements, while opponents point out that the amendment does not apply to new construction and that the savings are too minimal to affect decision-making.

Amendment 4 allows the legislature to create a new property tax category for land being held for conservation purposes but not classified as conservation land. Supporters include both environmental and sportsman groups while the League of Women Voters opposes the initiative for its impacts on local revenue.

Amendment 6 allows the legislature to create a new property tax category for waterfront areas open to the public. Supporters argue that the measure would help preserve waterfront access while opponents argue that the measure gives too much discretion to the Legislature and would hurt local revenues.

Amendment 8 would permit local sales taxes to fund community colleges, subject to a local public vote. Supporters say the increased funding is necessary while opponents argue that sales taxes are regressive and would create inequity in community college funding by shifting responsibility from the state to the local governments.

Hawaii

The Constitutional Convention Proposal, if passed, would convene a state constitutional convention to consider potential revisions (similar questions are on the Connecticut and Illinois ballots). Supporters argue that a convention will consider tax relief, creating local school boards, tort reform, and changes to the judicial selection process. Opponents argue that such a convention is unnecessary and expensive. The last state constitutional convention was in 1978.

Illinois

The Constitutional Convention Proposal, if passed, would convene a state constitutional convention to consider potential revisions (similar questions are on the Connecticut and Hawaii ballots). Supporters argue that a convention could consider adopting initiative and referendum, reducing the number of taxing districts in the state, currently over 6,000. Opponents argue that such a convention would be expensive and could be taken over by special interests, and may threaten the existing limitations on income taxes. The last state constitutional convention was in 1970; the Illinois Constitution requires that a new convention proposal be submitted to the voters every 20 years.

Louisiana

Proposed Amendment 5 amends the state constitution to authorize property owners to transfer their assessment from old property to new property, if the old property was expropriated by the federal or state governments, so long as the transfer occurs within 24 months, the new property is no more than twice the value of the old property, and the new property is a replacement of the old property.

Maine

Question 1 repeals a new (April 2008) tax on liquor, wine, and soft drinks enacted to funnel more money into the state's health care program. The tax is estimated to raise approximately $41 million per year.

Maryland

Question 2 would authorize the state to provide video lottery terminals (slot machines) in five locations in the state, with the $600 million raised funneled into education programs. Maryland recently raised taxes but the revenue increase is lower than projected, and along with spending increases has created a new budget shortfall. Proponents such as Governor O'Malley argue that slots can increase revenues without raising other taxes, and that some of the revenue can be pulled from neighboring states. It could also be said that by permitting some gambling, the state would give consumers more choice than they do at present. Opponents argue that state-sanctioned gambling is just a type of taxation and is associated with social costs, and that the measure does not address spending.

Massachusetts

Question 1 would cut the state income tax in half for 2009 and repeal it completely beginning in 2010. The state income tax currently tops out at 5.3 percent, and brings in $12 billion in revenue (out of a $28 billion state budget, not including "off-budget" expenditures and local government spending). If the initiative passes, Massachusetts would become the tenth U.S. state with no state income tax, joining Alaska, Florida, Nevada, New Hampshire, South Dakota, Tennessee, Texas, Washington, and Wyoming. (*But* New Hampshire and Tennessee tax some individual investment income.) Proponents point to wasteful spending on projects like the Big Dig and toll roads and recent increases in spending. Opponents such as Governor Deval Patrick earlier this year called the proposal "irresponsible," saying it would contribute to "broken roads..., overcrowded schools... [and] broken neighborhoods." A similar measure received 45% of the vote in 2000.

Several communities also have ballot initiatives to increase property taxes above the cap imposed by Proposition 2-1/2.

Minnesota

An initiative on the ballot would increase Minnesota's sales tax by 0.375% (to 6.875%) for 25 years, dedicating the revenue (estimated to be $11 billion) to wildlife habitat protection and restoration, water improvements, parks and trails, and arts and culture purposes. Supporters emphasize the importance of the programs, while opponents argue against the need to raise the general sales tax for these dedicated purposes.

Missouri

Proposition A raises the gambling tax from 20 percent to 21 percent, bars the construction of new casinos, and eliminates a rule prohibiting casino patrons from purchasing more than $500 chips in any two-hour period. The increased revenue, estimated to be at least $128 million annually, would be dedicated to early childhood programs and other state and local services. Proponents argue the importance of the programs, while opponents argue that the initiative is an example of logrolling.

North Kansas City residents are voting on whether to raise the local sales tax by a half-percent.

Montana

Legislative Referendum 118 extends a 6-mill statewide property tax levy dedicated for the Montana university system due to expire at the end of 2008, until 2018. The tax raises approximately $12 million per year, representing 9% of state funding for higher education. It was first imposed in 1948 and has been extended every ten years since. Proponents argue that the tax support is important, while opponents argue that it is not.

Nevada

Question 3 would require that the state legislature conduct a cost-benefit analysis of any proposed exemptions from state property or sales taxes, and include a sunset date for each exemption. Proponents argue that the requirements would improve the legislative process, while opponents say it may have no impact at all.

Question 4 would allow the state legislature to alter the state sales tax (except for changing the rate) without receiving voter approval (a requirement since 1956). The authority is being sought as part of the state's efforts to make the sales tax code uniform with other participants in the Streamlined Sales Tax Project (SSTP). The question would also repeal a sales tax exemption for aircraft components that was declared unconstitutional in 1997. Proponents argue this would improve flexibility in the tax code, while opponents defend the voter approval requirement as important.

New Jersey

Public Question 1 would expand a current requirement that state bonds require voter approval to bonds issued by state governmental authorities. A trend in many states is to shift government spending to these authorities and thereby escape many taxpayer protection requirements. In New Jersey today, there are $25.2 billion in bonds outstanding from authorities as opposed to $2.8 billion outstanding from the state and approved by voters. Proponents say the extension furthers the existing requirement's goals; opponents say that the requirement would make it more difficult to address funding needs and that it would be difficult to present these complicated appropriation questions to voters effectively.

New Mexico

Santa Fe residents will vote on whether to raise the sales tax (a partial gross receipts tax in New Mexico) by one-eighths of a percent (to 8.0625%) for 15 years. The tax, estimated to raise $80 million, would be used for transit projects.

North Carolina

Durham County residents will consider a 1 percent sales tax on prepared foods, estimated to raise $5 million annually for museums, parks, civic buildings, and marketing. Proponents say the tax increase is modest and will boost tourism; opponents argue it is regressive and that the projects should be funded through other means.

North Dakota

Measure 1 would amend the state constitution to create a permanent fund for oil and gas tax revenue collected exceeding $100 million and require a three-fourths vote of the legislature to spend it. Proponents say it is a responsible way to spend the severance tax revenues; opponents say it is a flawed policy that would be locked in.

Measure 2 would lower the state's corporate income tax by 15 percent and the state's personal income tax by 50 percent. This Tax Foundation paper extensively discusses Measure 2.

Oklahoma

State Question No. 735 would amend the constitution to create a property tax exemption for Oklahoma heads of households who were permanently disabled as a result of injuries sustained during military service.

Oregon

Measure 56. Currently, approval of property tax increases in Oregon requires a majority vote in an election where a majority of registered voters vote (except for November elections in even-numbered years). Measure 56 would reduce this requirement to just a majority of those who vote in the election. (Arizona will be voting on whether to adopt a similar requirement.) The current requirement was adopted in 1997 and reaffirmed in 1998. Proponents argue that someone not voting should not effectively count as a no vote against a tax increase; opponents say that this would create an incentive to submit initiatives in low-turnout elections where they are more likely to be passed by a vocal minority.

Measure 59. Currently, Oregon taxpayers can deduct their federal income taxes from their state income taxes up to $5,600. Measure 59 would remove this cap beginning in 2010, reducing state revenues by $1.3 billion in the next two-year budget. Proponents say the measure repeals a double tax on income, while opponents argue that the revenue reductions would harm state programs.

Virginia

Loudoun County residents will consider a 4 percent tax on meals, with the estimated $13 million annually in revenue used for school construction.

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