Inside this Issue:

- Mitt Romney’s Tax Plan
- Which States are Best for Business
- Meal Taxes in Major U.S. Cities

Constitutionality of Healthcare Reform:
Individual Mandate beyond Taxing Power of Congress

GUEST COLUMNIST: Senator Ron Wyden (D-OR)

“Bipartisan, Comprehensive Tax Reform Will
Restore America’s Competitive Edge”
What Does It Mean to Have a “Fair” Tax Code?

There has been a lot of media attention lately to the issue of inequality, with various reports purporting to show the rich getting richer while the rest of America is stuck in neutral. My colleague Will McBride countered these claims with his own study showing that inequality today is no worse than it was during the latter part of the Clinton Administration. Indeed, he found that inequality rose much faster during the Clinton years than the Bush years, a fact the media has been slow to report on.

Of course, it is easy to demagogue the “rich” if you first define them as faceless “millionaires and billionaires.” However, when we look beyond the political rhetoric and “put a face” on America’s wealthy taxpayers, we find that they are everything we want Americans to be–married, educated, hard-working, older homeowners with business income.

Demographic information is scarce on millionaires, but using Census and IRS data, here is a basic profile of households with incomes above $200,000:

- 83 percent are married-couple families.
- 56 percent are between the ages of 45 and 65.
- 73 percent of these families have two or more earners.
- 78 percent have a bachelor’s degree or higher.
- 61 percent of high-income households have children.
- 91 percent own their own home.
- They earn 55 percent of all private business income (S corp, LLC, and sole proprietor).

Meanwhile, low-income taxpayers tend to be the polar opposite of each of these characteristics. They are: single; younger (although in some income bands there are an equal number of people over 65); they have high school degrees or less; and, they have part-time jobs.

While many in Washington, including President Obama, believe that raising taxes on the rich will reduce income inequality in America, I am hard pressed to understand how higher taxes will change any of the vast demographic differences between the rich and poor in America.

Sincerely,

Scott A. Hodge
President
The Tax Foundation is an independent, nonpartisan and nonprofit research institution founded in 1937 to educate taxpayers, policymakers and the courts on sound tax policy. Our economic and policy analysis is guided by fundamental tax principles that should serve as touchstones for sound tax policy everywhere.

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COVER PHOTO: JOSEPH HENCHMAN, VICE PRESIDENT, LEGAL AND STATE PROJECTS, TESTIFIES ON TAX CODE REFORM BEFORE THE SENATE FINANCE COMMITTEE

COVER PHOTO © JAY MALLIN 2012
Tax Freedom Day Arrived on April 17

By William McBride, PhD

Tax Freedom Day® 2012 arrived on April 17 this year, four days later than last year due to higher federal income and corporate tax collections. That means Americans had to work 107 days into the year, from January 1 to April 17, to earn enough money to pay this year’s combined 29.2% federal, state, and local tax bill.

If the federal government raised taxes enough to close the budget deficit—an additional $1.014 trillion—Tax Freedom Day would have come on May 14 instead of April 17. That’s an additional 27 days of government spending paid for by borrowing. This year’s federal budget deficit remains high, although it has declined slightly over the past two years.

As the economic recovery continues, individual incomes and corporate profits will rise, increasing tax revenues and pushing Tax Freedom Day ever later in the year. The latest-ever Tax Freedom Day was May 1, 2000—meaning Americans paid 33.0% of their total income in taxes. A century earlier, in 1900, Americans paid only 5.9% of their income in taxes, meaning Tax Freedom Day came on January 22.

Tax Freedom Day is a vivid, calendar-based illustration of government’s cost, and it gives Americans an easy way to gauge the overall tax take. Conceived by Florida businessman Dallas Hostetler in 1948, he deeded the concept to the Tax Foundation upon his retirement in 1971. In 1990, sufficient data became available to calculate a separate Tax Freedom Day for each state.

We assume that the nation starts working on January 1, earning the same amount each day and spending nothing. When the nation has finally earned enough to pay all the taxes that will be due for that year, Tax Freedom Day has arrived. This year, Americans will spend $2.62 trillion on federal taxes and $1.42 trillion on state-local taxes out of $13.86 trillion in income, or a 29.2% tax bill.

The total tax burdens borne by residents of different states vary considerably, not only due to differing state tax policies but also because the steep progression of the federal tax system means higher-income states like Connecticut, New Jersey, and New York face a significantly higher total federal tax burden than lower-income states. Residents of Tennessee will bear the lowest average tax burden in 2012, with Tax Freedom Day for them coming on March 31. Also early are Louisiana (April 1), Mississippi (April 1), South Carolina (April 3), and South Dakota (April 4).

The Effect of Taxes on Economic Growth and Income Inequality

Raising taxes on high income earners will negatively affect long-term growth with no effect on income equality.

By William McBride, PhD

Tax policy is often and historically debated along two lines of argument: the idea that taxes harm economic growth versus the idea that taxes reduce income inequality. The recent debate over extension of the payroll tax holiday involved both arguments, but not in the usual way. First, the two dominant political parties seemed to switch roles, with historically tax-cutting Republicans opposing this tax cut and Democrats supporting it. Further, Democrats used the same argument Republicans have used for tax cuts: the idea that lower taxes spur economic growth. So why the flip-flop? It comes down to timing. Democrats focused on the short-run, arguing it would create an immediate boost to GDP growth, while Republicans focused on the long-run, arguing it would reduce economic growth in out-years due its effect on the deficit. Ultimately, both could be right, but
the two sides were talking past each other, as they often do. To address this issue, I looked at how payroll taxes, and other major taxes, have affected long-run growth in the 34 developed countries that make up the Organization for Economic Cooperation and Development (OECD). I found that payroll taxes have no measurable effect. In contrast, I did find that corporate taxes and progressive personal income taxes have a strong negative effect on long-term growth. Specifically, my estimates indicate that cutting the corporate rate by 10 points would add 11.1 points to total growth over an 11 year period, which would increase the annual growth rate in the U.S. from 1.4 percent to 2 percent.

The idea of inequality has also come to the forefront and is intertwined in the payroll tax debate due to the regressivity of payroll taxes (high-income earners are largely exempt from payroll taxes). A series of studies last year by the Congressional Budget Office, the Congressional Research Service, and prominent academics all came to the same conclusion: income inequality has been increasing for decades, partly as the result of reduced taxes on high-income earners. Upon reading the third such study, I looked into the data. Interestingly, I found they all used the same years, 2006 and 2007, even though more recent data exists. When I updated the data to 2009 (the most recent available), I found that income inequality has collapsed since 2007, along with high incomes, such that we are now back to where we were in the mid-1990s. As the following chart shows, income inequality over the last two decades or more has fluctuated with the economy, completely independent of changes in tax policy.

In conclusion, raising taxes on high income earners, at least over the range that is being proposed, will not likely have any effect on income inequality, but will very clearly have a significant negative effect on long-term economic growth.
Grading the Presidential Candidate: Mitt Romney

By William McBride, PhD

Perhaps responding to voter concerns about the economy, and a general sense that the tax code is a mess, presumptive Republican nominee Mitt Romney made tax reform a central part of his campaign.

In principle, all parties agree—the likely Republican candidate, the President, and us here at the Tax Foundation—that the tax code should be simple, transparent, and fair. The fairness issue allows some wiggle room, but most agree with us that fairness means everyone is treated equally under the law. More specifically, we think that means everyone should pay the same tax rate, i.e. no special treatment for certain individuals or groups of individuals and no special treatment for certain businesses or types of businesses.

But the devil is in the details, as they say. We graded Republican candidate and presumptive nominee Mitt Romney on his tax plan, as it has been specified thus far, based upon the principles we have espoused since 1937, and which we discussed most recently in “How to Judge a Tax Plan.” A number of candidates have dropped out since we first issued our grades last fall, and Romney has since revised his plan. So here follows our grade and analysis of Mr. Romney’s tax plan as it stands at the time of publication.

Note: We have not yet graded President Obama’s tax plan; look for that in our next issue.

“How to Judge a Tax Plan” may be found at http://www.taxfoundation.org/news/show/27804.html
NAME: Mitt Romney

**Pros:**
1) By reducing personal income rates by 20 percent, Romney’s plan moves toward a flat tax where each individual pays the same rate. It also reduces taxes on pass-through businesses which, with a top rate of 28 percent, would be taxed at nearly the same rate as C-corporations.

2) Lowering the corporate rate to 25 percent, making permanent 100 percent expensing, and moving to a territorial tax system would make the U.S. more competitive globally and improve our attractiveness for investment.

3) By ending the estate tax, this plan would eliminate one layer of double taxation of saving and investing.

**Cons:**
1) Romney’s plan fails to specify significant simplification of the current tax code.

2) The exemption of capital gains and dividends for those making $200,000 will have little practical impact and further complicate the code.

3) By maintaining multiple tax brackets in the individual code, this plan ensures that individuals will pay different rates.
Tax Policy Calculator Updated and Better than Ever!

From June to December of 2010 we maintained a “Bush Tax Cuts Calculator” that showed its users what kinds of tax changes they might expect under various policy scenarios, ranging from full expiration of all Bush tax cuts to their full extension and everything in between. It was a hit with reporters, accountants, and the general public, and was cited by the Wall Street Journal and Fox News, and we kept it continually up to date until the December tax compromise that extended all these tax cuts until the end of 2012.

Now that we’re again faced with the imminent expiration of a huge number of tax cuts, we’ve brought the calculator back with many new features. People often wanted more detail than what the calculator provided—“What if I want to look at these numbers for a different year? How do these numbers change if AMT isn’t patched? What if the Bush tax cuts are extended, but not the stimulus bill cuts?” The new calculator offers the flexibility to answer all these questions, because it’s organized so that the user can define custom scenarios and turn specific pieces of legislation on and off. If you’re a tax policy geek and want to know what your tax bill might look like four years from now if Romney’s 20% tax rate reduction is passed, but Congress also enacts a “Buffett Rule” and eliminates the AMT, the calculator can tell you.

If you’re not a geek and that sounds confusing, don’t worry. The three default scenarios use tax year 2013 and remain the same as the original calculator—full extension, full expiration, and Obama’s budget proposal—letting the Bush tax cuts expire only for wealthy taxpayers.

Check out the new calculator at http://interactive.taxfoundation.org/taxcalc/
Wyoming, Florida, and Texas rank among the ten best states for taxes on business, while companies in states like New York, New Jersey, and California have a far less pleasant tax climate to deal with, according to our new State Business Tax Climate Index, released in January.

The Index, now in its 8th edition, measures 118 different state tax provisions, turning them into a single easy-to-use score that measures each state against the tax climates of every other state. Each state’s ranking is therefore relative to the actual tax policies in place around the country.

Business leaders, government policymakers, and taxpayers use the Index each year to gauge how their states’ tax systems compare. While some similar studies focus on the total amount residents pay in taxes each year, the Index focuses on how the elements of a state tax system enhance or harm the competitiveness of a state’s business environment.

The 10 best states in the 2012 Index are Wyoming (#1), South Dakota (#2), Nevada (#3), Alaska (#4), Florida (#5), New Hampshire (#6), Washington (#7), Montana (#8), Texas (#9), and Utah (#10). Many of these states do not have one or more of the major taxes, and thus do not have the associated complexity and distortions.

While New Jersey remained steady compared with 2011, Rhode Island improved by implementing a modest income tax reform, while Maryland improved due to the expiration of their high-earner income tax. The states in the bottom ten generally have complex, non-neutral taxes with comparatively high rates.

Illinois moved most dramatically in its Index rank over the past year, falling twelve places after a significant income and corporate tax increase. As a result of the tax increases, many businesses
threatened to leave the state, including some high-profile Illinois companies such as Sears and the Chicago Mercantile Exchange. By the end of the year, lawmakers had cut sweetheart deals with both of these firms, totaling $235 million over the next decade, to keep them from leaving the state.

Other states seeing a decline in their ranking include Vermont, which fell four places, while Massachusetts and North Dakota both advanced four places up the chart.

In 2011, the State Business Tax Climate Index was downloaded 487,000 times and cited in hundreds of newspaper articles, editorials, and broadcast media reports. Four governors also cited the Index’s findings in their State of the State addresses.

Even in our global economy, a state’s stiffest and most direct competition often comes from other states. State lawmakers need to be aware of how their states’ business climates match up to their immediate neighbors and to other states in their region. While taxes are just one factor in business decision making, other concerns such as education, health care, transportation can take decades to implement. Tax changes can quickly improve—or dramatically worsen—a state’s business climate immediately.

Download the 2012 State Business Tax Climate Index for free on our website, and you may purchase a hard copy on Amazon.com.

Download the Index at http://www.taxfoundation.org/publications/show/22658.html
Tax Foundation Named Organization of the Year by State Tax Notes
Survey of Experts Finds Us Most Relied Upon for State and Local Tax Information

The respected trade journal State Tax Notes named us its 2011 Organization of the Year in December, after their survey of tax professionals, academics, and lawmakers overwhelmingly chose us as the organization they rely on most for state and local tax information.

“We’re honored to be chosen by State Tax Notes as their Organization of the Year,” said Tax Foundation Vice President of Legal & State Projects Joseph Henchman.

Excerpts from the State Tax Notes announcement:

“Over the past decade, the foundation has become a source of data, studies, and other fiscal information for tax professionals, legislative staffs, media, governmental affairs offices, and academics . . . . The foundation is relied on by major news organizations, public finance scholars, and legislative staff more than any other organization” . . .

“[T]he Tax Foundation gets high marks for its commitment to the principles of sound tax policy . . . . [It] has been on the correct side of most state and local tax issues in the past decade. And appropriately, it has received high marks from both liberals and conservatives . . . . State Tax Notes found that even the most ardently liberal legislators acknowledged, often grudgingly, that the foundation was generally right in its approach to tax policy.”

Read the full announcement here: http://taxfoundation.org/blog/show/27816.html
Our new study comparing “meals tax” in the fifty largest U.S. cities has generated dozens of media citations and new moves to reduce high taxes on to-go, fast food, and restaurant orders. We found that of those 50 cities, only 15 cities charge a higher tax on meals than on other goods.

These taxes are sometimes justified as a “luxury tax” intended to target higher-income individuals, although the wide diversity of takeout dining options suggests that such a tax is poorly targeted to achieve that goal. One could say that it is a tax on individuals with less flexible schedules or who do not like to cook—rich or poor.

Others justify these taxes as tourism taxes, designed to shift tax burdens to business and vacation travelers, similar to high taxes on hotel rooms and car rentals. Because the benefit derived from added economic activity from visitors and travelers probably exceeds the government services they use during their stay, “tourism” taxes are generally bad policy because they shift tax burdens away from those residents who actually demand and benefit from government services.

For the full report and table, visit http://taxfoundation.org/news/show/28018.html

Some key findings:

- Thirty-five of the 50 cities do not charge a higher tax on meals than on other goods.

- Visitors to Minneapolis, Minnesota pay the highest meals tax: a combined 10.775 percent rate. Combined rates are also high in Chicago, Illinois (10.75 percent), Virginia Beach, Virginia (10.5 percent), Seattle, Washington (10 percent), and Washington, D.C. (10 percent).

- Visitors to Virginia Beach, Virginia see the highest jump from the regular sales tax to the meals tax: a 110% increase from 5 percent to 10.5 percent.
State of State Addresses Roundup

Seven governors have mentioned our research in their 2012 State of the State addresses:

Kentucky Governor Steve Beshear (D): “In fact, the national Tax Foundation says Kentucky has the 19th best business tax climate in the country – better than neighboring states like Illinois, Ohio, West Virginia and Tennessee. But to prepare ourselves to compete in the future, we must, in a strategic and non-partisan way, re-align our system with the principles of fairness and with a 21st century economy.”

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Maine Governor Paul LePage (R): “[I]n 2009, Maine had the 9th highest tax burden in the country. New Hampshire was the 6th lowest. Even TAXachusetts was lower than Maine.”

Minnesota: Governor Mark Dayton (D): “The 2012 State Business Tax Climate Index ranked Minnesota only 45th among the states. The top five were: Wyoming, South Dakota, Nevada, Alaska, and Florida.”

Nebraska Governor Dave Heineman (R): “According to the Tax Foundation rankings, in 2006 Nebraska was one of the top ten highest tax states in America. Nebraska was 45 out of 50 states. Today we are 29th. Since 2006, Nebraska has made greater and more significant improvement in our tax climate than 48 other states. That’s good news, but we can do better than 29th.”

New Jersey Governor Chris Christie (R): “And by trying to tax their way out of it, previous governors and legislators had left New Jersey in 50th place - dead last among the states - in the total tax burden it placed on our citizens.” (50th in the State-Local Tax Burdens report)

South Dakota Governor Dennis Daugaard (R): “The Tax Foundation ranked South Dakota #1 for our State Business Tax Climate. And we continue to have the lowest per-capita tax burden in the nation.”

Wyoming Governor Matt Mead (R): “A report from The Tax Foundation recently put Wyoming at the top (number one) of its index of states with good tax climates.”

State Testimony Roundup

So far this year, Tax Foundation experts have testified or presented in a number of states:

Alaska legislators peppered Joe Henchman with questions for forty minutes in March as they consider extending their tax credit program providing subsidies to film production. Henchman reviewed research showing that the programs are not effective at long-term economic development.

California officials attended a California Taxpayers Association panel in March on upcoming federal legislation presented by the Tax Foundation, the Council on State Taxation, and attorney Art Rosen.

Florida testimony by our economist Scott Drenkard was instrumental in pushing forward a ballot initiative that will restructure local tangible personal property taxes.

An upcoming Kansas panel in April hosted by the Kansas Policy Institute will feature a presentation on our new Location Matters report.

A Nevada panel in March on the perils and pitfalls of Texas’s margin tax on business featured a spirited discussion with Henchman and representatives of the Council on State Taxation and the Texas Taxpayers & Research Association.

Henchman will also be on hand in Oklahoma to celebrate that state’s Tax Freedom Day, at events hosted by the Oklahoma Council of Public Affairs (OCPA).

Rhode Island officials and businesses attended a February presentation on state rankings and tax reform progress from Henchman and the Rhode Island Public Expenditure Council (RIPEC). A similar event occurred in Texas in January for the beginning of their state legislative session, hosted by the Texas Public Policy Foundation.
Supreme Court Hears Challenge to Arbitrary Tax Refund Policy

By Joseph Henchman

On February 29, the U.S. Supreme Court heard oral arguments in Armour v. City of Indianapolis, a challenge to a government decision to refund a canceled tax to some taxpayers and not others. We submitted briefs urging the Court to take the case and rule in favor of the taxpayers, and we were on hand for the oral argument and a roundtable panel afterwards. The facts of the case:

Taxpayers in Indianapolis were assessed a sewer charge of $9,278 either (1) in full, up front or (2) by installment over 10, 20, or 30 years. One year later, the City changed the tax structure going forward and forgave the outstanding payments of taxpayers paying by installment. Taxpayers who paid in full requested a pro rata refund of their upfront payment, but the City refused.

The trial court and Indiana Court of Appeals ruled that the City’s refusal to refund the up-front taxpayers, while forgiving the obligations of the installment taxpayers, violated the Equal Protection Clause. The Indiana Supreme Court, in a 3-2 decision, reversed, ruling that the City’s refund policy is valid because it could reduce administrative burdens and help the poor.

Our brief argues that the City’s refund policy is arbitrary and unconstitutional, and that courts must evaluate whether claimed justifications have any rational connection to the stated policy, particularly where there is a strong perception of unfairness and arbitrary action. If allowed to stand, the Indiana decision will undermine business certainty, tax compliance, and respect for the law.

For many citizens, paying taxes is one of the few ways that they interact with the government. Tax policy widely perceived as unusual and unfair threatens to foster a general disenchantedness with the government, creating tensions between the law and citizens. By reiterating basic standards of equal refund treatment of a canceled tax, this Court will reduce the prevalence of a rising problem of arbitrary taxation practices.

Much to the surprise of nearly all observers, the case seems to be falling along the Supreme Court’s reported ideological lines: the conservative justices support the taxpayers while the liberal justices support the government. More specifically, the conservative justices expressed outrage at the City’s refund policy and its lack of rationality, and the liberal justices expressed strong concern about second-guessing a government decision to limit who gets refunds from a canceled tax.

For more analysis from the oral argument, and to read our brief in the case, visit http://www.taxfoundation.org/blog/show/28022.html
As the Supreme Court decides whether the health care law is constitutional, they’ll be considering our brief which argues that the mandate for all Americans to buy health insurance is beyond Congress’s taxing power. On March 29, we were one of six organizations invited to present our views on the constitutional issues at a hearing of the House Ways & Means Committee’s health subcommittee.

While most other briefs in the case focus on whether the mandate can be severed from the rest of the bill or whether the law is permitted under Congress’s power to regulate interstate commerce, we uniquely focused on rebutting the government’s other claim that the mandate is a tax. We argue that it is not, because it is properly considered a penalty and not a tax. Here’s why:

Our brief lists pages of tax-definition precedents from nearly every federal and state court that would be jeopardized by a Supreme Court ruling that the individual mandate is a tax.

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Read the brief here: http://www.taxfoundation.org/publications/show/27970.html

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- Long-standing American suspicion of taxes, which dates from colonial times, has led to numerous federal and state restrictions specific only to taxes, such as the federal Anti-Injunction Act and state-level supermajority and voter approval requirements.
- These requirements in turn have necessitated a meaningful definition of "tax," particularly to contrast against other government actions that result in revenue, such as fees and penalties.
- Federal and state courts have risen to meet that need, articulating a definition that is widely accepted today:
  - a tax is an exaction imposed for the primary purpose of raising revenue for general spending,
  - a fee is an exaction imposed for the primary purpose of recovering from the payor the cost of providing a particular service to the payor, and
  - a penalty is an exaction imposed for the primary purpose of punishing the payor for an unlawful act.
- This definition has strong historical and economic underpinnings, is supported by the Supreme Court’s precedents and the academic literature, and is widely used by numerous federal and state courts.
- The health care bill itself and accompanying technical documents, as well as statements by President Obama, claim that the mandate should not be considered a tax.
- The individual mandate is thus properly considered a penalty and not a tax for purposes of the U.S. Constitution’s Taxing Power and for purposes of the Anti-Injunction Act.
- If the individual mandate is a tax, it is an unapportioned direct tax and thus unconstitutional.
The Tax Foundation’s 74th Annual Dinner, held on November 17, 2011, was a spirited success. We honored David Cote, Chairman and CEO of Honeywell International, and John Boehner, Speaker of the House of Representatives, with our Distinguished Service Award.

FROM LEFT: David Cote, Chairman and CEO of Honeywell International; John Boehner, Speaker of the House; the Honorable Bill Archer; Pamela Olson, Tax Foundation Board Member and Principal, Deputy Tax Leader, PricewaterhouseCoopers LLP; and Dave Lewis, Chairman of the Board for the Tax Foundation and Vice President-Global Taxes, Chief Tax Executive & Assistant Treasurer, Eli Lilly and Company.

FROM LEFT:
Jordan King  Candidate for B.A. in Political Science, George Washington University
Kevin Duncan  B.S. in Economics, George Washington University; Candidate for M.S. in Economics, Iowa State University
I. Harry David  B.A. in Economics, Auburn University; M.A. in Economics, George Mason University
Alex Raut  B.S. in Economics, University of Minnesota-Twin Cities; Currently accepted to several graduate programs, undecided
Carolina Celnik  B.A. in International Relations, American University
Richard Borean (not pictured)  Candidate for B.A. in Linguistics, George Mason University
1943 Letter Demonstrates the Enduring Nature of the Tax Foundation’s Publications

By Donald R. Johnson

On February 15, 1943, Harry A. Bullis, the president of General Mills, Inc., penned a letter to the Tax Foundation to thank us for our recently transmitted progress report. However, Bullis didn’t stop there. Continuing for three paragraphs, he praised the Foundation’s work titled “Facts and Figures on War Finance,” calling it “the publication which impressed us the most and which we have used in arousing the interest of others . . . .” Though the war finance edition of Facts and Figures was discontinued after World War II, the Foundation’s Facts & Figures publications continue to the day.

Our Facts & Figures: How Does Your State Compare? handbook now circulates over 12,000 print copies to every state and federal legislator, and individual, corporate, and foundation sponsors. It is routinely cited by governors, legislators, and industry experts. Our Facts & Figures on Government Finance provides what Nobel Laureate Milton Friedman described as “the most detailed and useful statistical portrait of where the spending goes and how it is financed.” Started in 1941, this publication is the direct descendant of the Facts and Figures on War Finance which so impressed President Bullis of General Mills.

As we dig into our past to celebrate our future, we are proud of the enduring and reliable nature of our work. We invite you to peruse the Historical Studies & Reports section of our website, where we have digitized selected items dating from as early as 1940. You may find these materials at: http://www.taxfoundation.org/publications/showtype/21.html.

Meet our Members

David J. S. Nicholson
Chairman, The Stiles-Nicholson Foundation

One of the most enjoyable activities for the Tax Foundation is getting to know our donors and supporters. They are some of the most interesting, talented, and successful people you will ever meet. That certainly describes David Nicholson, Chairman of the Stiles-Nicholson Foundation in Jupiter, Florida, and Tax Foundation supporter since 1995.

David is the classic self-made American success story. He was born in York, England, raised in Ontario, Canada, and came to the United States in 1966. After beginning his career as an engineer with IBM and Weyerhaeuser, he moved into the investment field, eventually starting his own investment firm, York Management & Research, and three of his own quantitatively driven private hedge funds.

In 1992, David formed the Stiles-Nicholson Foundation with the primary mission to enhance the understanding and appreciation of the basic principles and benefits of the free enterprise system through local and national education initiatives. The Tax Foundation certainly shares those objectives.

According to David, “We support the Tax Foundation due to its outstanding leadership in educating the public and elected representatives about the real objective facts about taxes and the impact that they can have in stifling economic activity. Identifying and implementing long term fiscal policies which foster economic growth should be non-partisan, and the Tax Foundation is non-partisan.”

Furthermore, he says, “We believe that fiscal and monetary policies can create and encourage an opportunistic growth oriented environment which is friendly to business job creation. Taxes play a vital role in that endeavor.”

One of David’s passions is Junior Achievement, the national program that teaches entrepreneurship to teenagers. Each year, JA, through local volunteers, teaches over 4 million students in K-12 about free enterprise, entrepreneurship, and financial literacy. As David says, “The objective is to make them work force ready and prepare them for the real world. After all, students are less than 25% of our population, but they represent 100% of our future.”

We would not be able to make a difference were it not for incredible, dynamic supporters like David Nicholson.

Tax Foundation in the News

In New Hampshire, Fiscal Anxiety Despite Relative Economic Health
January 6

New Hampshire also has some of the highest property tax rates in the nation, according to the Tax Foundation, a nonpartisan research group, and they are rising because of the drop in real estate values. Garry Haworth, a retired chemist who was volunteering at a phone bank for Mr. Obama in Manchester on Tuesday, said his property taxes had increased 10 percent last year.

“Most of the people I know who probably could afford to retire don’t dare,” said Mr. Haworth, who voted for Mrs. Clinton in 2008.

Analysis: Santorum tax plan cuts rates, keeps goodies
January 9

Santorum’s website says its zero tax rate for manufacturers will “spur middle income job creation in the United States and benefit from the job multiplier effect in manufacturing.”

The conservative Tax Foundation criticized the plan, in particular its manufacturing special carve-out.

“IT gets a D plus, which is the lowest grade we gave,” said William McBride, an economist with the think tank.

McBride said Santorum’s new tax break for manufacturers would likely lead all sorts of companies to claim to be eligible, similar to a manufacturing deduction grabbed by nearly every company a few years back.

“It would create very unstable revenue,” he said.
‘Buffett Tax’ and truth in numbers  In September, the Congressional Budget Office estimated the 10-year deficit at $8.5 trillion. The nonpartisan Tax Foundation estimates that a Buffett Tax might now raise $40 billion annually. Citizens for Tax Justice, a liberal group, estimates $50 billion. With economic growth, the 10-year total might optimistically be $600 billion to $700 billion. It would be a tiny help; that’s all.

“The purpose of the Buffett Rule is not to close the deficit gap,” Buffett has said. Hard choices remain, in part because existing deficit estimates already assume steep defense cuts.

Mitt Romney’s Plan to Cut Your Taxes  The candidate’s initial economic plan—released in September—was billed by the Romney campaign as “the most detailed plan for economic growth and job creation of any presidential candidate.” But it fell flat with some influential conservatives, including the Wall Street Journal editorial board, which labeled the proposals “surprisingly timid and tactical.”

“Seventy-five countries have cut their corporate tax rates. And if we look at the rest of the world, it’s a very competitive place compared to the United States,” Hodge says.

Obama’s Corporate Tax Cut Plan Faces Uphill Battle  At least on paper, U.S. companies pay a tax rate of 35 percent—higher than almost any other advanced country. Tax Foundation President Scott Hodge says that rate leaves U.S. corporations at a big disadvantage.

The Tax Foundation, a think tank that generally advocates for lower tax rates, said that Romney’s initial plan for the individual code “really takes no step toward fundamental reform.”

Tax Cuts Should Create Growth, Not Junk Spending  The Tax Foundation, a Washington-based nonprofit group that focuses on state, federal and international taxes, surveyed the 34 nations in the Organization for Economic Cooperation and Development for the period from 2000 to 2010. The foundation looked at rates for pension taxes and growth. It found no relationship. None.

The average OECD payroll tax for pensions and health was 27.9 percent, whereas the U.S. levy was 16.3 percent. (The OECD includes unemployment insurance in its basic reckonings of payroll taxes, so the numbers may look slightly different.) By those traditional axioms, that means we should be growing faster than other countries. Instead we grew significantly slower than the OECD average.

Obama $250,000 Tax Line Set by Three Numbers With Four Meanings  Obama’s simple 2008 campaign pledge to prevent tax increases for all but the highest earners has been transformed into tax-code arcana. The dividing line in his speeches—$250,000 a year for married couples and $200,000 for individuals—is established in his policies with four separate definitions and three different numbers.

“It’s much more complicated than it sounds,” said Nick Kasprak, an analyst at the Tax Foundation, a Washington group that favors a simpler tax code.
And the Oscar Goes to... the Free Market! In the United States, 40 states have some form of tax incentives for film or TV production. Unsurprisingly, this industry favoritism has led to less than stellar economic results.

According to Joseph Henchman from the Tax Foundation, “these programs lose governments between 72 and 92 cents for every dollar spent on them, even after accounting for increased economic activity generated by film production.” In addition, these tax credits are terrible job creators, since many production companies import most of their staff, while the vast majority of local hires are only temporary.

Wyoming First, Pennsylvania Worst In Business Taxes An executive looking to locate his company might do well to consider Wyoming. That state is the most business-friendly in the country, at least when it comes to taxes, according to a new study.

When all taxes that businesses pay are factored in, Wyoming’s rate is less than half the national average, according to a Tax Foundation study released Wednesday. The state is one of three—Nevada and South Dakota are the others—without a corporate income tax.

Top 10 cities with highest meal taxes When it comes to taxes on prepared meals, Minneapolis, Chicago and Virginia Beach, Va., rank as the three highest in the nation, according to a recent survey by The Tax Foundation.

The Tax Foundation, a Washington, D.C.-based think tank, released the study earlier this month. It ranked combined sales taxes and the growing number of specific municipal taxes on meals. Minneapolis led the ranking with a sales tax of 7.775 percent, and an additional meals tax of 3 percent, for a combined tax on meals of 10.775 percent.

Alabama beer tax is second highest in US Scott Drenkard, an economist with The Tax Foundation, said one issue states should be concerned with is whether their beer drinkers are hopping across state lines to buy cheaper brew. For example, if someone buys beer in Tennessee they pay just 14 cents per gallon. If lots of people are doing that, Alabama could be losing out on tax revenue, he said.

“There is little evidence to show that increased taxation on beer is going to lead to less of an inebriated state,” Drenkard said. “In general, you may actually see the opposite, as consumers could switch to hard liquor.”

President Obama says he wants to end subsidies for what he calls “the fuel of the past,” but lucky for him oil and gas will be the fuels of the future too. His budget-deficit blowout would be so much worse without Big Oil, because the truth is that this industry is subsidizing the government.

Not paying their “fair share”? Here’s a staggering fact: The Tax Foundation estimates that, between 1981 and 2008, oil and gas companies sent more dollars to Washington and the state capitols than they earned in profits for shareholders.
Let’s Go to the Video: Making the Case for Corporate Tax Reform

The case for major reform of corporate income taxes is stronger than it’s been in many years, with everyone from Rep. Paul Ryan (R-WI) to President Obama to Sen. Ron Wyden (D-OR) having proposed their own plan in recent months. In order to help focus the debate on the most important issues at stake, we’ve created a series of four short videos.

**Video #1: Falling Behind by Standing Still**
In recent years, the United States has been slipping from a position of economic competitiveness, in part because of changing corporate tax rates across the globe. Once a leader internationally, waves of tax reform in dozens of countries have left the U.S. burdened with one of the highest corporate tax rates in the world, slowing new investment and job growth.

**Video #2: Advantages of a Territorial System**
Businesses in the United States face a strategic disadvantage when competing abroad due to the current structure of the U.S. tax code. Unlike most other countries in the world, the U.S. government taxes profits earned abroad on top of what companies pay to foreign countries. In order to spur greater investment and economic growth, the U.S. should follow the example of our closest trading partners and embrace a territorial tax system.

**Video #3: Comparing Effective Rates**
No matter how you look at the data, U.S. companies are paying one of the heaviest tax burdens in the world. Until our system is more competitive, we will struggle to keep jobs and industries in the U.S.

**Video #4: Winning at Home and Abroad**
Raising taxes on U.S. corporations that do business abroad—as some in Washington, D.C. have suggested—won’t protect American jobs. In a global marketplace, companies need to be able to compete wherever their customers are. Successful U.S. companies end up expanding payrolls both at home and abroad.TW
Rep. Seth Berry on Tax Zappers

Maine Rep. Seth Berry (D-Bowdoinham) explained the problem with "tax zappers"—programs that allow merchants to evade sales taxes—and the bill he is co-sponsoring to address the problem.

Andrew Biggs on Federal Budget Reform

American Enterprise Institute Resident Scholar Andrew Biggs assesses the failure of the super-committee, the future of payroll taxes and social security, and the chance for reform of the federal budget process.

Prof. John Garen on the Kentucky Blue Ribbon Tax Commission

Prof. John Garen of the University of Kentucky and the Bluegrass Institute discusses the new tax reform effort launched by Gov. Steve Beshear.

Nina Olson on the IRS and Taxpayers’ Rights

National Taxpayer Advocate Nina Olson explains the work of the IRS Taxpayer Advocate’s office and the contents of her most recent report to Congress, including under-funding at the IRS, identity theft, and the need for a federal Taxpayer Bill of Rights.

George Runner on California’s Board of Equalization

George Runner, member of the California Board of Equalization, tackles the debate over online retailers and the state’s “Amazon law,” the property tax legacy of Proposition 13, and the protections afforded by the Golden State’s Taxpayer Bill of Rights.
Bipartisan, Comprehensive Tax Reform Will Restore America’s Competitive Edge

by Senator Ron Wyden (D-OR) Ron Wyden has been standing up for Oregon in the U.S. Senate since 1996. Throughout his public service, he has earned a reputation as an independent voice for Oregonians and the nation, offering creative, common-sense solutions on issues that make a real difference in people’s lives.

What does this mean? It means that instead of investing in new jobs and innovation, U.S. businesses are investing time, energy and resources to avoid paying taxes. It means that instead of hiring people to build things, businesses are hiring lobbyists to secure more specialized tax breaks and loopholes to lower their tax burden. It means that the tax code is now so complicated that instead of making it easy for businesses to set up shop, the U.S. tax code requires every entrepreneur to have an accountant. And it means that instead of encouraging investment in the U.S., the U.S. tax code is encouraging U.S. companies to invest in other countries where taxes are lower.

The U.S. tax code is clearly in need of reform.

It’s been done before. In 1986, a Democratic House majority joined forces with President Ronald Reagan and a Republican-led Senate to overhaul the federal tax code. There was no precedent for that coalition, but there is one today.

Joining forces against special interests, Democrats and Republicans sent the president sweeping bipartisan legislation that eliminated numerous tax breaks and loopholes to streamline the code and hold down rates for everyone, without any additional government spending.

More than 6.3 million new jobs were created in just the two years that followed the ’86 reform. That is more than double the number of jobs created during the full eight years that followed the Bush tax cuts of 2001.

Senator Dan Coats, a Republican from Indiana, and I have offered reform legislation modeled on the 1986 effort that we believe can make U.S. businesses more competitive with their global counterparts and encourage investment in U.S. workers. We have been working together to advance the Bipartisan Tax Fairness and Simplification Act and with the budget crisis throwing into sharp relief the pitfalls associated with other remedies in Washington, we believe the time is ripe for the same kind of bipartisan, comprehensive tax reform we saw almost three decades ago.

What became clear from the 1986 effort was that lower marginal tax rates—the tax rate on the last dollar of income earned—did more for the economy as a whole than special tax provisions or sweetheart deals.

Our bill wipes out dozens of these giveaways and lowers the corporate tax rate for everyone, from a global high of 35 percent down to a competitive 24 percent. That will boost American businesses’ ability to compete, plain and simple.

The Wyden-Coats bill eliminates the tax break for shipping jobs overseas but gives U.S. corporations a one-time tax holiday to repatriate profits currently held offshore, helping them transition to the new tax system. In addition to the low flat corporate rate, this will help make the U.S. a more attractive place for both U.S. and foreign businesses to invest.

But tax reform can’t stop with the corporate tax code.

The vast majority of American businesses pay taxes under the rules of the individual code so corporate tax reform alone will do nothing for the thousands of sole proprietorships, partnerships, and LLCs that make up the backbone of the U.S. economy. We need comprehensive tax reform that simplifies the corporate and the individual code at the same time so that no U.S. business or taxpayer is left out.

Tax reform can create a simpler, more business-friendly tax code that increases tax revenue without raising tax rates. It can lower corporate tax rates to make American businesses more competitive, which will help businesses to create jobs that pay middle class wages. Tax reform can also make tax filing less taxing for everyone.

None of this is going to be easy. When the drum beat for reform picks up, every special interest and lobbying firm in the city will be working overtime to protect the tax breaks they hold dear. But if Congress is serious about creating jobs, there is no better place to start than tax reform.

The Tax Foundation invites national leaders from all perspectives to contribute columns to Tax Watch. The opinions expressed are those of the authors and not necessarily those of the Tax Foundation.
About the Tax Foundation
What Do We Stand For?

As a nonpartisan educational organization, the Tax Foundation has earned a reputation for independence and credibility. However, it is not devoid of perspective. All Tax Foundation research is guided by the following principles of sound tax policy, which should serve as touchstones for good tax policy everywhere:

**Simplicity:** Administrative costs are a loss to society, and complicated taxation undermines voluntary compliance by creating incentives to shelter and disguise income.

**Transparency:** Tax legislation should be based on sound legislative procedures and careful analysis. A good tax system requires informed taxpayers who understand how tax assessment, collection, and compliance works. There should be open hearings and revenue estimates should be fully explained and replicable.

**Neutrality:** The fewer economic decisions that are made for tax reasons, the better. The primary purpose of taxes is to raise needed revenue, not to micromanage the economy. The tax system should not favor certain industries, activities, or products.

**Stability:** When tax laws are in constant flux, long-range financial planning is difficult. Lawmakers should avoid enacting temporary tax laws, including tax holidays and amnesties.

**No Retroactivity:** As a corollary to the principle of stability, taxpayers should rely with confidence on the law as it exists when contracts are signed and transactions made.

**Broad Bases and Low Rates:** As a corollary to the principle of neutrality, lawmakers should avoid enacting targeted deductions, credits and exclusions. If such tax preferences are few, substantial revenue can be raised with low tax rates. Broad-based taxes can also produce relatively stable tax revenues from year to year.