

The Tax Foundation's Proposals Are Lose/Lose for Wisconsin

Flaws abound in conservative think tank's
State Business Tax Climate Index

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Imagine this tax package:

1. Charge sales tax on all groceries.
2. Impose sales tax on gasoline, in addition to the gas tax.
3. Eliminate deductions and exemptions from state income tax.
4. Create one income tax bracket so everyone pays the same rate, regardless of income.
5. Abolish all business tax credits.
6. Cut state spending on transportation by 15%—roads, bridges, buses, trains, airports and ports.
7. Cut state spending on health care by 15%—for children, elderly, the poor, everyone.
8. Cut state aid for education by 15%—pre-school, K-12, technical colleges, UW system, employee training.

Interesting proposal: bad for business, the middle class, vulnerable citizens, students and economic growth. Who offers this bizarre plan? The Tax Foundation.

The Tax Foundation is the Washington, D.C.-based think tank whose reports, including the recent *2010 State Business Tax Climate Index*, are regularly cited as reasons to make big cuts in state taxes, including in Wisconsin. [The report is available from the Tax Foundation's web site: www.taxfoundation.org.]

The latest report includes details on how states can improve their ranking in the *Business Tax Climate Index*. Each of the above proposals is specified as a policy change that would improve a state's rating. Any tax index that gives higher scores for adopting those policies is a flawed index. Whatever the index measures, it isn't good tax policy.

The eight proposals above follow from the Tax Foundation's belief in taxes that are broad (a sales tax on everything consumers buy), simple (abolish all deductions, exemptions and brackets), low (they say that cuts in transportation, health care and education take a long time to notice, but tax cuts instantly improve a state's rank). [See the Appendix for detailed citations from the report, showing where the Tax Foundation endorses these proposals.]

The Tax Foundation promotes minimal taxes and government. It rejects the idea that tax responsibility should bear any relation to someone's ability to pay. States with progressive taxes are penalized in their Index.

If Wisconsin enacted their suggestions, our ranking would soar—even while hurting virtually every taxpayer and business in the state. Would the tax critics then cheer our improved rank?

The Tax Foundation's agenda is cloaked in a technically detailed pseudo Index to confuse readers into believing its recommendations are based on hard, quantitative evidence. The Tax Foundation's *State Business Tax Climate Index* is ideology masquerading as statistics.

The self-labeled "non-partisan" Tax Foundation was founded in 1937 by CEOs of General Motors, Standard Oil and other big companies. Its current board is dominated by Republican, corporate interests. Two of its five directors served in the recent Bush administration and were senior advisors to the Bush and McCain presidential campaigns; a third was a 15-term

Republican Congressman from Texas; and the other two are tax planners for major corporations and wealthy individuals.

The policies recommended in their report would undermine Wisconsin's future. They would:

- Increase families' daily cost of living
- Cut business incentives to explore and expand new technologies
- Eliminate progressive income tax that helps level the field between wealthy and average people
- Stunt transportation improvements
- Shriveled medical care crucial for community health
- And deconstruct our fine education system.

Some pundits jump on Tax Foundation studies to attack adequate funding of key public systems and to undermine the notion that a tax system should take into account the taxpayer's ability to pay. It's a recurring charade with each of their reports.

Wisconsin needs avenues to rebuild a strong state economy, but the Tax Foundation conclusions are a road that goes nowhere.

Appendix:

Are the proposals outlined above actually endorsed by the Tax Foundation? Here are quotations from its *2010 State Business Tax Climate Index* which make the endorsements:

Proposal: Impose a sales tax on all groceries, which are currently exempt.

Tax Foundation: The report asks whether groceries should be exempted from sales tax, citing as a possible justification the idea that such a tax especially hurts low-income people. "In reality," the report states, "exempting groceries from the sales tax mostly benefits grocers, not the poor." Further, "widespread availability of public assistance for the purchase of groceries...makes the argument for such exemptions unpersuasive." (pp. 24-25)

Proposal: Impose a sales tax on gasoline.

Tax Foundation: The report states: "Purchases of gasoline should be included in the sales tax base, even though every state subjects gasoline to a separate excise levy...no damaging tax pyramiding is caused by levying both an excise and a general sales tax on gasoline...thus the Index gives a better score to states that include gasoline in the sales tax base." (p. 23)

Proposal: Eliminate all deductions and exemptions from the state income tax.

Tax Foundation: The report urges simplicity as an essential element of an income tax system, and anything interfering with this goal—including deductions, exemptions, and income tax brackets—therefore lowers a state's rating. States "will generally score well if they have a flat, low tax rate with few deductions and exemptions." (pp. 15-16)

Proposal: Merge the state's five income tax brackets into a single bracket, so everyone pays an identical rate, regardless of income.

Tax Foundation: The report strongly criticizes the use of multiple tax brackets. "A graduated, multi-rate income tax structure exacerbates" the problem of income taxes influencing personal and company behavior, the report says. (p. 15) "States that score poorly have complex, multiple-rate systems." (p. 16) "States with flat rate systems score the best." (p. 17)

Proposal: Abolish all business tax credits (except unlimited carry-back and carry-forward deductions for losses).

Tax Foundation: The report says: "Tax credits complicate the tax system. They narrow the tax base, drive up tax rates for companies that do not qualify and distort the free market system...[the] index rewards those states that do not offer the following tax credits, and penalizes states that offer them." (p. 13) The list of bad credits includes investment tax credits, job tax credits and research and development tax credits.

The exception is the ability of firms to take one year's losses and carry those either forward or backward in time to offset future or past taxable profits. The Tax Foundation supports this deduction. "States that limit such deductions are penalized in the Index." (p. 11)

Proposals: Cut by 15% all state spending on transportation; on health care; and on education.

Tax Foundation: Changing a state's tax system can have an immediate impact on the state's business climate, the report asserts. Changes to important infrastructure take much longer to notice, it adds. The report says: "Unlike changes to a state's health care, transportation or education systems, which can take decades to implement, changes to the tax code bring almost instantaneous

benefits to a state's business climate." (p. 4) It follows, therefore, that slashing tax rates by cutting spending on "health care, transportation or education systems" would give an "almost instantaneous benefit" to a state's ranking, while the damaging effects on infrastructure would be much slower in surfacing. It's a way to show immediate progress in improving the business climate, the report suggests.