



June 5, 2009

Wisconsin State Assembly
Wisconsin State Senate

Dear Members of the Wisconsin Legislature,

I write in strong opposition to the litany of tax increases included in the Joint Committee on Finance's budget. The onerous provisions include raising the income tax, business taxes, cigarette taxes, telecom taxes, oil taxes, and a whole host of others.

These tax increases would come on the heels of a \$1.2 billion tax increase package just passed in February. Furthermore, this budget continues a reckless spending trend by actually increasing expenditures by 7%, despite the fact that spending has outpaced revenues by \$6.6 billion this year.

Raising the income tax to 7.75% will hit residents, small businesses, and seriously impede job creation during this recession. Well over two thirds of small businesses file personal income tax returns as "pass-through" entities. In this recession, these primary job creators simply cannot shoulder the burden of over \$287 million in higher taxes and will be forced to raise prices on Wisconsin consumers or lay off employees. Additionally, individuals and businesses do relocate to states with a more favorable tax treatment. Maryland, for example, just announced that after raising their top income tax rate they had a *net loss* of \$100 million from high-income earners who fled the state.

The 42% increase in the cigarette tax is a tax hike on low income individuals. On average, smokers have a median income of a little more than \$36,000, about 30 percent less than non-smokers.

Additionally, cigarette taxes are a declining revenue stream that result in future tax hikes. When New Jersey raised the cigarette tax just 17.5 cents, they collected \$52 million less than projected, and \$22 million below what they collected before the tax hike. When Arkansas passed a tax hike on cigarettes this year, it was set to raise \$86 million. Just one month later, the state said it would bring in \$14 million less than projected. Furthermore, as consumption drops from increased smuggling and higher prices, the cigarette tax will prompt future tax hikes after policymakers become reliant on the statically budgeted and declining revenue stream.

Raising the cell-phone tax by 75-cents – a \$100 million-plus tax increase – will also raise costs on Wisconsinites at a time when they are cutting back. ATR and the Center for Fiscal Accountability have calculated that consumers 46.4% of consumers cell phone bills already goes toward paying for government taxes and fees. Furthermore, raiding the \$20 million balance of the fund that was established to upgrade 911 services and promised to be returned to consumers raises serious questions about good and honest governance.

In addition to a higher income tax that will hit small businesses, the budget contains a number of other tax hikes that target nearly all businesses in Wisconsin. Decreasing the amount of capital gains that can be excluded from individual's income tax receipts will not only discourage future investment, but will raise taxes by over \$170 million. Additionally, adopting a "throw-out sales" rule is an over \$80 million tax hike on businesses. In fact, New Jersey just repealed this onerous law as it found a multitude of businesses shut down or left the

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state as a direct result. Finally, adopting Streamlined Sales Tax changes would tax consumers of digital goods and other products to the tune of \$14 million.

There are a number of other onerous provisions in this budget proposal that Wisconsinites will not see, but will raise the costs of goods and services throughout the state during a recession. A little known fact to career politicians is that business costs – including taxes and fees – are necessarily passed onto consumers in higher prices.

- Expanding the definition of “nexus” to force out-of-state retailers to collect taxes on Wisconsinites, despite clearly violating federal interstate commerce law, will raise taxes on consumers who purchase goods online.
- A new \$260 million-plus tax on oil companies in Wisconsin will certainly raise the price of gasoline and energy.
- A \$200 million-plus tax on hospitals will raise the cost of health care.
- Requiring drivers to purchase gold-plated car insurance will raise the cost of owning a vehicle.

I urge you to stand up for taxpayers, small businesses, and consumers to oppose these distortionary and excessive tax increases proposed in the Joint Committee on Finance’s budget. If you have any questions, please contact Kelly Cobb, state affairs manager, at (202) 785-0266.

Onward,



Grover Norquist

CC: Governor Jim Doyle