

---

---

# ❖ The TAX TIMES ❖

---

---

Volume 11, Issue No. 9

July, 1996

---

---

## Preview of The Next State Budgets. An Early Look.

We should all be concerned with the state budget for a number of reasons. First and foremost, taxes paid by the citizens of Wisconsin are already among the highest in the nation. Whatever happens in Madison can have a dramatic effect on our local property and state taxes.

The *Wisconsin Taxpayers Alliance* addressed this subject in their May 31, "FOCUS" commentary and we give you some of their observations.

"Recent reports from three state agencies offer an early look at Wisconsin's budget prospects for the coming two years. Since 1994, the state's fiscal condition has been tight—despite a growing economy—due to a decision to use state taxes to but down December 1996 school property taxes by more than \$1 billion. Although the school property tax cut will occur largely in one year, hindsight will show the relief was financed over five fiscal years (1995 through 1999) through spending restraint, natural revenue growth, limited tax and fee hikes, and drawdown of surplus.

### I. DOA: Limit Spending Requests.

**Priority is Tax Relief.** A recent Dept. of Administration (DOA) memorandum outlining "Major Budget Policies for 1997-99" is clear. As with the current budget, "property tax relief initiatives will continue to be the top priority and will absorb the majority of available revenues." In 1995-97, virtually all growth in state tax collections was devoted to tax relief.

**Slow Growth or Cuts.** DOA has asked agencies to prepare two budget plans for 1995-97. The first allows a 1% increase in 1997-98 and a 3% increase in 1998-99. The second requires a 3.5% cut in the first year, followed by a freeze.

Significantly, no programs are exempt from this policy other than school aids, debt service and "standard budget adjustments."

### II. DOR: Expect Modest Growth

In its just-released economic outlook, the Dept. of Revenue (DOR) finds the risk of an early recession has "waned" but foresees "modest growth" ahead. The national economy (as measured by real gross domestic product) will slow from an increase of 3.5% in 1994 to 1.6% in 1997 before rising to 2.3% in 1998.

**Job Growth.** While Wisconsin's mean annual job growth over the past four years was 2.7%, increase will average 1.5% during the next three. In the first quarter of 1996, the number of jobs rose 3.1%, but are projected to slow to 0.5% in the second quarter. Goods-producing industries are "most impacted by the slower growth forecast." Manufacturing employment rose 3.9% in 1994 and 2.7% in 1995 but is expected to be flat through 1998. Construction jobs were up 5.1% in 1994 and 2.9% in 1995 but are also expected to be flat through 1998. Wholesale trade and service employment is expected to remain strong.

### Personal Income.

For state budgeters, one of the most significant figures to watch is personal income. Over the years, income changes are reflected in tax collections. In fact, between 1984-85 and 1994-95, personal income increased 78% while total state GPR taxes rose 76%. Wisconsin has had strong

income growth in recent years, often outpacing the nation. However, DOR expects more moderate increases through 1998.

### III. Fiscal Bureau Looks at 1997

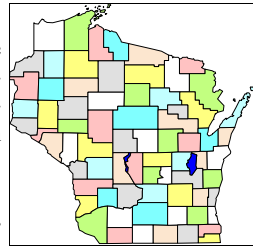
A mid-May memorandum from the Legislative Fiscal Bureau (LFB) looks at the possible condition of Wisconsin's general fund in mid-1997 and beyond.

**"Fiscal Breathing Room."** The LFB suggests the state will end the current budget period on June 30, 1997, with a balance of \$360 million on a gross basis, \$268 net. The latter allows for the 1% reserve required by state law.

**And 1997-99?** The Fiscal Bureau also took a "first look" at the 1997-99 state budget, and assumed \$910 million will be needed over two years for the state to fund two-thirds of school costs. Several revenue scenarios were also assumed, including 5% current growth and the 5.8% ten-year average.

Their projections left net balances of \$28 and \$248 million in 1999 after allowance of the required 1% reserve. The LFB points out, however that they assumed *NO* expenditure growth in 1997-99 except what is needed for school tax relief. Other items which could affect the 1997-99 budget are \$40 million per year in new prison costs; about \$23 million per year in debt service; a 5% increase in Medicaid and a 1% annual increase in state employee compensation. These "likely" items could add \$275 million in biennial spending, leaving a large deficit at the end of the period. The implication is that deeper budget cuts will likely be necessary to continue the commitment to school tax relief".

What will be the impact on local property taxes after school tax relief is in effect? How many items will become local responsibility? Although space does not allow us to print the entire report, more information can be obtained from the Wisconsin Taxpayers Alliance, 335 W. Wilson St., Madison, WI 53703-3694. (608) 255-4581. \* \* \*



---

---

**The BROWN COUNTY TAXPAYERS ASSOCIATION**

---

---

# The Federal Income Tax.

## Who pays How Much?

It somehow seems that most proposals for revising the Federal income tax codes call for easing the burden on lower income taxpayers while at the same time tinkering with exemptions, deductions and rate tables to shift higher tax liability to those considered having a greater ability to pay. Perhaps the politicians are finally beginning to realize what a monster they have created but then remember that this is an election year. What would happen if a "Flat Tax" were ever imposed is a matter of speculation.

There was an interesting article in the July, Kiplinger "*Personal Finance*" magazine which claims that the top 5% of taxpayers in the U. S. pay close to half of all federal income taxes. Household earnings of \$87,154 or more would qualify for this top 5%, which pays 47.3% of the individual taxes but only makes 27.8% of the national adjusted gross income. At the other end of the scale, the bottom 50% of taxpayers, with incomes below \$21,158, have only a 14.9% share of AGI and in 1993, the latest year for which figures were available paid only 4.8% of the total federal income taxes collected. The complete table that they presented is printed below:

Source: TAX FOUNDATION

TAXPAYERS BY INCOME	1993 Adj. Gross Income (AGI)	Share of AGI*	SHARE OF INCOME TAXES
Top 1%	Above \$185,791	13.8%	28.8%
Top 5%	Above \$87,154	27.8%	47.3%
Top 10%	Above \$66,196	39.1%	58.8%
Top 25%	Above \$41,192	62.5%	79.2%
Top 50%	Above \$21,158	85.1%	95.2%
Bottom 50%	Below \$21,158	14.9%	4.8%

\* Income before subtracting exemptions and deductions.

### Editors Comments

It was interesting to note Wis. Dept. of Revenue Secretary Mark Bugher defending claims by a "Citizens for Tax Justice" group claiming that lower income families in Wisconsin are taxed higher than the national average. We all pay higher taxes in Wisconsin, but lower income earners receive the benefit of deductions and lower rates on a far greater percentage of their income, and are more unlikely to have any amount of property subject to our incredible property tax rates as compared to other states. (Note above article.)

The on again, off again Brewers Stadium fiasco now appears to be on again. It is difficult to gauge the overall value of this project in terms of economic value to Milwaukee and the state. However, if by some miracle the ultimate cost actually is \$250 million, and assuming that a total of 50 million people attend events there until some team owner in the future determines that it needs replacing or else, the subsidized cost of every man, woman and child passing through the gate would be 5 bucks a head. It would seem that if this project is as important and necessary as the politicians are leading us to believe, somewhere along the line there should have been a referendum giving the voters in the five counties bearing the bulk of the costs a chance to voice their approval. Wouldn't a mandate from the people have made it easier to deal with the cost and financing up front?

## Basics of a Sound Tax

The early 19th century supply-side economist Jean-Baptiste Say observed: "Taxes and restrictive measures never can be a benefit: they are at best a necessary evil..."

Over the centuries economists have offered numerous guidelines for what a tax system should and should not accomplish. The father of modern-day economics, Adam Smith, offered four maxims of taxation in 1776, quoted in the following column. Smith's tax criteria make sense today, over 200 years after he first outlined them. He provides us with the basis for a good checklist with which to evaluate our current tax system and any reform proposals.

### Adam Smith on a Sound Tax System: *The Wealth of Nations* (1776)

**I** The subjects of every state ought to contribute towards the support of the government, as nearly as possible, in proportion to their respective abilities; that is, in proportion to the revenue which they respectively enjoy under the protection of the state...

**II** The tax which each individual is bound to pay ought to be certain, and not arbitrary. The time of payment, the manner of payment, the quantity to be paid, ought all to be clear to the contributor, and to every other person.

**III** Every tax ought to be levied at the time, or in the manner, in which it is most likely for the contributor to pay it.

**IV** Every tax ought to be so contrived as both to take out and to keep out of the pockets of the people as little as possible, over and above what it brings into the public treasury, in the four following ways. First, the levying of it may require a great number of officers, whose salaries may eat up the greater part of the produce of the tax, and whose perquisites may impose another additional tax on the people. Secondly, it may obstruct the industry of the people, and discourage them from applying to certain branches of business which might give maintenance and employment to great multitudes. While it obliges the people to pay, it may thus diminish, or perhaps destroy, some of the funds which might enable them more easily to do so. Thirdly, by the forfeitures and other penalties which those unfortunate individuals incur who attempt unsuccessfully to evade the tax, it may frequently ruin them. and thereby put an end to the benefit which the community might have received from the employment of their capitals. An injudicious tax offers great temptation to smuggling. — Fourthly, by subjecting the people to the frequent visits and the odious examination of the taxgatherers, it may expose them to much unnecessary trouble, vexation, and oppression: and though vexation is not, strictly speaking expense, it is certainly equivalent to the expense at which every man would be willing to redeem himself from it..."

Adam Smith - 1776

From "*The Great Tax Debate*: Making sense of Competing Tax Plans." Small Business Survival Foundation.

Editors Note: Even though the intent and spirit of the taxing authorities are probably much the same today as they were in 1776, the cumbersome and evasive tax codes we now have are a far cry from Mr. Smith's "basics." What will happen during the next 200 years.?

"The power to tax involves the power to destroy."

.....John Marshall

"In this world, nothing can be said to be certain, except death

# The FLAT TAX

## Free audiotope cassette offered.

Taxpayers Network, Inc., of Cedarburg, WI is cooperating with a Washington DC group known as Citizens for a Sound Economy in attempting to educate citizens about the Flat Tax. They are making available a free 60 minute audio cassette which addresses the following questions:

- is the Flat Tax Simple?
- is it fair?
- is it progressive?
- is it for business or for individuals?
- what is Taxed?
- what is not Taxed?
- problems with present tax system.
- will it reduce the size of the IRS?
- will it reduce cost of compliance?
- what happens to the home mortgage deduction?
- are interest, dividends, and capital gains taxed?
- what is the tax rate?
- what is the impact on real estate and housing?
- what is impact on charitable contributions and charitable organizations.
- can flat tax legislation actually pass?
- medical expenses deduction?
- how would millionaires be taxed?
- effect on working households?
- what is the mission of CSE?

The information on this tape should be of interest even if you do not believe the Flat Tax to be a viable idea.

You can obtain a free copy by sending a self-addressed stamped envelope (.55

"There can no longer be anyone too poor to vote."  
 . . . . .Lyndon B. Johnson

"When the President does it, that means it is not illegal."  
 . . . . .Richard M. Nixon

### MEMBERSHIP

Renewals for membership in the BCTA are sent on cyclical basis, or in other words, on the anniversary of the month when you first joined our organization.

We are rather informal, and are fortunate that most of our members renew promptly when sent statements, as preparing and mailing the "TAX TIMES", as well as obtaining information and other services does represent considerable expense.

Please, if you have received a renewal notice and have not responded, it would be appreciated. Also, we always welcome new members to the BCTA and solicit articles suitable for "TAX TIMES."

### BITS AND PIECES

Interesting that Madison was named Money Magazines #1 city in the USA. Rockford, IL which is about the same size and only 57 miles away came in dead last at #300. The climate? High taxes? What can you say?

The last issue of "Forbes" states there are 67,062 people employed by lobbyists in Washington, or 125 per congressman. Their revenues exceed the GNP of 57 countries, and there are 3 times as many lawyers in Washington as all of Japan. And you wonder why we can't get campaign reform?

### PolicyFax makes

If you need information on such topics as taxes, welfare, environment, etc., you can obtain it in a hurry from the PolicyFax service sponsored by the Heartland Institute of Palatine, Ill.

Over 3,000 documents from 100 of the nation's leading think tanks are available. All you need is an account number, a touch-tone phone and a fax machine. Each document costs only \$5.00 and is free to legislators or journalists. For further information, contact the BCTA, Mike Riley at (414) 375-4953, or call (847) 202-3060. \* \* \*

### JUNE MEETING NOTES

Minutes and treasurers reports from the May 16, meeting were presented and approved. Mike Riley, president of Taxpayers Network, Inc., referring to the present Social Security system as a "Ponzi" scheme urged support of H. R. bill #2928, also known as the "Social Security Preservation Act of 1996." Features of the act include the requirement that Social Security Funds be invested as much as possible in interest bearing obligations of the U. S. Government or certificates of deposit in institutions insured by the FDIC. The act would protect these trusts funds from any use other than bonafide Social Security items and protect them from government misuse, as at present they are included in the federal budget in exchange for Government IOU's. One downside is that this would likely increase the Federal deficit, but greatly stabilize the Social Security trust fund which we will all depend upon at some time. There are many other ways in which the budget could be reduced.

Petitions urging our representatives to support H.R. 2928 were distributed and more available by contacting the BCTA at 469-7373 or writing Box 684.

Mike also distributed an excellent cassette tape from a group called "Citizens For a Sound Economy" supporting the flat tax and addressing various questions regarding a flat tax, and suggested that anyone with a need for up to date information on current topics contact the Heartland Institute for their PolicyFax service. (See accompanying articles.)

The next monthly BCTA meeting is scheduled for July 18, 1996. \* \*

"Voters don't decide issues, they decide who will decide issues."  
 . . . . .George F. Will

"It doesn't matter who you vote for, the government always gets in."  
 . . . . .London Graffiti

"Sometimes, party loyalty asks too much."

## **BCTA Meeting & Events Schedule**

Thursday - July 18, 1996 DAYS INN - Downtown \*  
12:00 Noon - Monthly Business Meeting

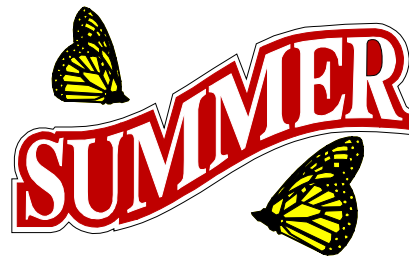
Monday - July 29, 1996 Deadline, Material for August  
"TAX TIMES"

Wednesday - July 31, 1996 Balance due - Property Taxes.

Thursday - Aug. 15, 1996 DAYS INN - Downtown \*  
12:00 Noon - Monthly Business Meeting

\* Cost - \$6.25 per meeting - Payable at door.  
Call 469-7373 for reservations. (Leave Message)

All members of the BCTA, their guests, and other interested persons are invited to attend and participate in these open business meetings.



### **Support the BCTA**

The "TAX TIMES" is mailed to various service clubs and organizations in the Green Bay area. We have speakers available and would welcome the opportunity to appear before your group. Call our answering service at 469-7373 for additional information.

Your comments, and material for the "TAX TIMES" are always appreciated. Thank you for your interest.

"I have never been hurt by anything I didn't say."

## **The TAX TIMES**

BROWN COUNTY TAXPAYERS ASSOCIATION  
P. O. BOX 684  
GREEN BAY, WI 54305-0684

**BULK RATE**  
U. S. Postage  
**PAID**  
Green Bay, WI

### **Inside This Issue**

Preview of coming state budgets.  
Who Pays How Much Income Tax?  
Basics of a Sound Tax System.  
Free Flat Tax Information Offer.  
PolicyFax - Direct to You.  
and more.