

TAX TOPICS

A Publication of the Taxpayers Association of Vigo County, Inc. Summer 2008



Big Yellow Taxi **By Joni Mitchell**

They paved paradise
And put up a parking lot
With a pink hotel, a boutique
And a swinging hot spot
Don't it always seem to go
That you don't know what you've got
'Til it's gone
They paved paradise
And put up a parking lot

They took all the trees
And put them in a tree museum
Then they charged the people
A dollar and a half just to see 'em
Don't it always seem to go,
That you don't know what you've got
'Til it's gone
They paved paradise
And put up a parking lot

Hey farmer, farmer
Put away that DDT now
Give me spots on my apples
But leave me the birds and the bees
Please!
Don't it always seem to go

That you don't know what you've got
'Til its gone
They paved paradise
And put up a parking lot

Late last night
I heard the screen door slam
And a big yellow taxi
Come and took away my old man
Don't it always seem to go
That you don't know what you've got
'Til it's gone
They paved paradise
And put up a parking lot

I said
Don't it always seem to go
That you don't know what you've got
'Til it's gone
They paved paradise
And put up a parking lot

They paved paradise
And put up a parking lot
They paved paradise
And put up a parking lot

MODERN MAN IS A SLOW LEARNER

Floods have happened before, and they will happen in the future; but they will happen more frequently as time goes along (flood trending). Indiana must improve its system of roads and water systems. The recent flood has shown us where we need to make major improvements. Culverts must be built larger, and in many cases, changed to bridges. Major creeks and ditches must be maintained and void of logjams. Waterways must be monitored for beaver dams.

All communities must begin to work together and stop the process of one community sending its storm water to another with no concern (out of sight, out of mind, is unfair). The Taxpayers Office solicits your opinion on the following idea:

I-69 should be dropped and all money planned for it should be spent on correctly rebuilding the failed systems we now have. If anyone can, please show me that I-69 is better for the State of Indiana than fixing our problems that have existed for many years.

TAXPAYERS ASSOCIATION ANNUAL MEETING 2008

The Annual Meeting was held on May 8, 2008 at Idle Creek Banquet Center at 12:00 Noon. Bernard Ridens introduced three speakers. The first speaker, Pam Norman, Executive Director of Indiana INTERNnet, spoke of the role of her organization and offered a manner in which businesses could take advantage of the program. The second speaker, Meghan Speidel, a 500 Festival Princess, spoke of the 500 festival and its goal of enhancing the quality of life for Indiana citizens. The third and final speaker was Rick Wajda, a lobbyist for the Indiana Builders Association. Rick presented a Power Point show titled "The Importance of Lobbying." He explained the role of a lobbyist and explained their necessity in helping the federal government make decisions that impact the interest of the public.

Following the three speakers, Hannah Biggs and her teacher Ross Martin were presented awards for Hannah's winning essay submitted to the Taxpayers Association, and the subsequent award to her teacher Mr. Martin.

Tom Woodason presided over a brief board meeting in which the board members with terms set to expire in 2008 were re-elected to a three-year term ending in 2011. The motion was made by Rick Jenkins, seconded by Vickie Barrett, and carried. Tom also stated that Bernard was a "bulldog" when it came to attending meetings and disseminating the information. He encouraged guests to become members and members to encourage others to join.

The list of Board Members re-elected for another three-year term is:

Marla Ames	John Hilderbrand
Eric McGlone	Gregg Scott
Carolyn Toops	Tom Woodason
Mark Zimmerly	Rick Braden
Robert Thompson	

After the meeting, door prizes were awarded. Staples, Terre Haute Savings Bank, Home Builders Association of Greater Terre Haute, Carolyn Toops, Saratoga Restaurant, Staples, Idle Creek Golf, Idle Creek Dawg Leg, JR Scripts, Taxpayers Association, SONY Music Entertainment, C. H. Gormong & Son, Inc., and Bernard Ridens donated the door prizes. (The value of the door prizes was approximately \$800.)

WINNING ESSAY

Hannah Biggs from Terre Haute South Vigo High School was the winner of our essay contest this year. She was given her award at the TA Annual Meeting. The topic of this year's Taxpayers Association was on compounded/hidden taxes and why the average American worker shoulders such a burden. The following is her winning essay. We congratulate Hannah Biggs!



(From left to right): TA President, Tom Woodason; Teacher Sponsor, Ross Martin; Essay Contest Winner, Hannah Biggs; TA Executive Director Bernard Ridens

Hidden Taxes: The Degrading Force for the Middle Class Standard of Living

A 2003 report by journalist Christine Dugas of *USA Today*, reported that middle class families are struggling to maintain a suitable standard of living. Many families are now being forced to put both mother and father into the workplace in order to keep up with college loan payments, credit card payments, and the ever rising gas and heat bills. Yet, these families not only face the challenge of paying their bills on time, but they also must consider how they will fund

both their retirement and their children's college educations. It is a dire situation that the middle class family finds itself in, yet situations do not appear to be getting better. In 2003, the average middle class family made anywhere from "\$25,000 to \$99,999 a year," yet this was not sufficient to deal with payments and the escalating credit card debts (Dugas). Even today, middle class families are forced to "use credit cards to fill

a gap between their income[s] and costs” (Dugas).

The economic situations of middle class families are commonly recognized as gages for the United State’s economic situation. When the middle class family is struggling to make ends meet, it is a sign that the U.S. economy is faulty. However, despite the dismal economic conditions for the average family, the U.S. economy continues to put pressure on its citizens, especially the middle class. Through a concept known as hidden taxes, citizens are blindsided by their government and asked to pay more for goods or services than needed. When the middle class family is already struggling to make ends meet, they face another degrading force: hidden taxes.

A hidden tax is essentially a government implemented tax, either at the national or local level that is not made known to the consumer and does not appear on the receipt. It is a tax that is passed from producer(s) to consumer. According to the National Debt Awareness Center, a hidden tax occurs “when a tax is levied against a corporation, [and] that corporation just includes the cost of that tax (and the cost of complying with the tax laws) in the price of its product or service...the customer pays for the tax” (Corporations). In an already struggling economy with stressed and indebted citizens, this hidden tax adds a significant amount of extra cost to the price of an item. For many items, it is estimated that the total cost of an item can be as little as 10% hidden tax - as in the case of sport fishing equipment, to even 143% - as in the case of peanut butter (Dolan). For middle class families in heavy credit card debt, this is a huge strike against their pocket books.

Furthermore, many of these middle class citizens do not even realize that they are

paying these hidden taxes. Ken and Daria Dolan, a couple who publishes articles on economic circumstances affecting Americans, list eight categories that have “very” hidden taxes. For example, one category that many Americans do not realize has a hidden tax is gasoline. This hidden tax is usually around 46 cents per gallon of fuel, and this money then goes to federal, state, and local governments. When gas prices are already at their all time high, it is a great burden on the middle class family to pay an extra 46 cents on a gallon of gas just so the federal government can receive their tax dollars.

Not only is the price for fuel increased by hidden taxes, but so is the price for a car itself. Many car dealerships must increase their prices in order to compensate for the hidden taxes on their products. Since a car is a product that requires many intermediate assembly steps and many intermediate goods, every piece that goes into a finished car has its own hidden tax, which is then passed on to the consumer. For example, a factory produces iron grommets; their product is taxed by state and federal governments. Then, the factory sells their grommets to a company that produces metal boxes to hold G.P.S’s; the tax levied on the grommet factory is included in the cost of the grommets – the box company pays for that tax because it is included in the grommet price. The box company then sells its boxes to a computer company who will install the G.P.S’s, and the price the computer company will pay for the boxes will include the taxes levied on the grommet company and the metal box company. Then, the computer company is taxed by state and federal governments, and when they sell their product to an engine company, they include these taxes in the price of the good. When the engine company sells its motors to car companies,

such as GMC, they charge their regular price plus all of the taxes levied so far. And finally, when the car is sold to the consumer, the actual price of the car “includes the cost of corporate taxes levied on all the manufacturers of all the parts of the car” (Corporations). When the consumer purchases the car, “about 23% of the total cost” of the car is hidden taxes (Corporations). It is through this vicious chain of events that more of the middle class citizen’s money is taken than need be.

Many economists would argue that these struggling middle class families should ride their bikes for transportation rather than drive cars. However, there is also a hidden tax on bicycles. For every bicycle, an estimated 11% of the consumer price is hidden tax. Although this tax is slightly less than the estimated 15% on gas, it is still a significant amount of money to pay for a bicycle for a struggling family. And for a family with multiple children, paying for multiple bicycles is a burdensome task.

Although the government can attempt to help these struggling families, many of these families fall into a category where they can receive little help. In order to qualify for federal aid programs, they need to make very minimal income. With both parents

working, this is not usually the case. Their combined incomes would be considered too high to receive federal aid. Then, in order to benefit from “expanded retirement plan limits, tax cuts on dividend income, capital gains and the like,” they need to make slightly more than they currently do (Dugas). The middle class family is “stuck in the middle” of two spectrums of society’s economic class: the poverty stricken and the wealthy. Little help is available for the struggling middle class.

For many middle class families, their future economic circumstances look grim. The middle class makes up the majority of the population of the United States, yet few of them seem to be able to rise above credit card debt and student loan repayments. For a nation primarily composed of middle class, yet debt-stricken citizens, the economic outlook and the future social mood for the nation can not be good. For many middle class Americans, the hidden taxes have drained their wallets and put a burden on their once comfortable lifestyles. Life is a struggle for them, and many have no where and no one to turn to for help. As Terry Will, a middle class mother interviewed by Christine Dugas said, “We just have to trust in God to help us” (Dugas).

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COLLECTION ALLOWANCES

Due to the recent sales tax increase from six to seven percent, beginning after June 30, 2008, sales-tax collection allowances for retail merchants will be adjusted as follows:

- 0.73% if the total sales tax collected is less than \$60,000
- 0.53% if the total sales tax collected is between \$60,000 and \$600,000
- 0.26% if the total sales tax is more than \$600,000

You may recall that when the state sales tax was increased from 5 to 6 percent, the sales tax collection allowance percentage was decreased from 1% to 0.83% for businesses who collect less than \$60,000 in sales taxes. Here are the new collection allowances compared to what they were previously.

<i>Sales Tax Collected</i>	<i>Before June 30, 2008</i>	<i>After June 30, 2008</i>
Less than \$60,000	0.83%	0.73%
\$60,000 - \$600,000	0.60%	0.53%
More than \$600,000	0.30%	0.26%

YOU NEED TO UNDERSTAND LOBBYING

By Lee Hamilton

Director of the Center on Congress at Indiana University and former U.S. Representative

When news stories about questionable doings on Capitol Hill appear these days, more often than not they involve lobbyists. Think of the Jack Abramoff affair and its many spinoffs, or the ruckus over the New York Times story about John McCain and his dealings with one particular lobbyist. Small wonder that many Americans continue to think of lobbyists as little more than back-room influence peddlers.

The truth, though, is rather different. Most lobbyists are hard-working professionals who understand how to navigate the political process, gain access to lawmakers and key executive-branch officials, and build a strategy to achieve their legislative goals. Whether or not you like the prominent place they occupy in our system, lobbyists have become such an integral part of how our government operates that you can't really

understand Washington unless you also understand the role they play in it.

Let's start with the basics. Lobbying is a huge business. There are roughly 30,000 registered lobbyists, but that does not include the marketers, public relations experts, pollsters, support personnel and others who back up their work. One lobbying expert, American University government professor James Thurber, puts the total number of people involved in lobbying at 261,000.

This army of people — whose activities, remember, are aimed at influencing just 535 members of Congress and a relative handful of federal officials — cost and spend several billion dollars each year. At least one company spent more than \$1 billion in lobbying activities last year, at the federal and state levels.

A good lobbyist can make four or five times what a legislator or high-ranking official earns, and there's a reason for this. Groups with interests in Washington pay big money for the lobbyists they hire because if they're successful, the payoffs can be huge: subsidies for business; tax breaks for corporations and industries; immunity from lawsuits or even from laws their competitors must obey.

Regardless of which party controls the White House or Capitol Hill, it has become clear to pretty much every interest imaginable in recent years that Washington can stack the deck in its favor or tilt the field against it, and the lobbying workload has soared as a result. In a very real sense, lobbyists have become intermediaries between Washington and the organizations that represent the vast diversity of people, beliefs, and interests in our society.

Even without the occasional scandal, Americans tend to be skeptical about this development. They see lobbyists as agents of special interests who get privileged access to decision-makers, in part by buying it through campaign contributions. There's truth to this. Many Washington lobbyists are active in raising money and support for candidates who back their positions; they make hard-headed judgments about who will most strongly support their industries or causes and hence get their cash. And lobbyists undoubtedly get the chance to press their cases on Capitol Hill with access that your average farmer or teacher can only envy.

Yet the reality is more complicated than “special interests” overwhelming “the public interest.” Lobbyists deal in facts — the best of them know that what lawmakers want is straightforward, understandable, and accurate information on a given issue. So on any tough policy matter, which will inevitably

find Americans coming down on every side of the issue, all the various interests will be armed with good arguments that make the strongest possible case for their position. While it's too simplistic to say that they cancel one another out, this does mean that they serve an invaluable purpose in helping members of Congress understand an issue and, perhaps even more important, to understand how various constituencies view it.

This suggests a responsibility on the part of public officials who are being lobbied. It is their job not simply to be passive recipients of arguments and information, but to sort through it, and in particular to understand that it comes with a point of view — to listen carefully, in other words, but also remember that a lobbyist presents only one side of a complex issue. The skillful lobbyist, of course, will identify his or her position with the broader public good, but an equally skillful politician understands how to separate the wheat from the rhetorical chaff.

At the same time, ordinary voters should remember that they have one attribute that a member of Congress prizes highly: a vote. For all the campaign contributions they hand out and access they enjoy, lobbyists don't actually have the final say on whether a member of Congress gets re-elected; that's up to the folks back home. Which is why transparency — strict reporting laws on campaign contributions and lobbying expenditures, with easy access to that information for reporters and ordinary Americans — is so important.

For in the end, the voters have to judge whether a member of Congress has allowed lobbyists' arguments and contributions to outweigh the interests of his or her constituents and of the public at large. If so, that's what the voting booth is for.

Source:

http://congress.indiana.edu/radio_commentaries/you_need_to_understand_lobbying.php

(March 13, 2008)

PUBLIC SCHOOL FAILURES – GET READY!

When we're past the primary elections, the major issues will be sorted and one will be a non-partisan topic that will draw mixed emotions. That issue will be NCLB (No Child Left Behind). As you know, from past things I have written, it is my opinion that major changes are needed in this law. I am NOT opposed to accountability of our educational systems, but I DO object to the testing methods used and the poorly conceived expectations.

Example: The tenth grade exam brought to your attention a few weeks ago is not a realistic goal for low achievers and a waste of valuable time for high achievers. A parallel example would be to require all college graduates to score at a certain level on a differential equations exam (how would YOU do)? I am sure we have many college graduates that couldn't pass the Indiana tenth grade math test today. I suggest that there should be some college accountability. The following article shows how one state (Minnesota) is addressing NCLB.

TIME TO GIVE CONTROL OF LOCAL SCHOOLS BACK TO LOCAL COMMUNITIES

By Geoff Michel and David Hann
Star-Tribune (Minneapolis-St. Paul)

April 2, 2008

It's time to issue a grade to the federal government's No Child Left Behind education experiment, and that mark is an unqualified "F." Six years of NCLB begs a fundamental question: Who do we want to run our schools?

Our response: Not a federal government that is 1,200 miles away from our classrooms. We need to recommit to local control of schools and empower parents, teachers and principals.

Minnesota Senate Republicans are calling for a decisive end to our state's participation in No Child Left Behind and have drafted legislation that would allow Minnesota to opt out of this federal mandate. There is growing bipartisan support for this measure in St. Paul.

No Child Left Behind was passed in Congress in 2001. There was bipartisan opposition from the start, including seven members of our eight-member Minnesota

congressional delegation. Today, growing criticism of the law is also bipartisan. The law is supposed to be reauthorized this year, but it is deadlocked in controversy in the Congress due to objections by members of both political parties.

Twenty-three other states have considered opting out. While none have totally pulled out yet, every state has sought waivers and 29 have called for full federal funding of the mandate. Some states have also taken stronger steps with proposals prohibiting expenditures of state funds to comply, or complying only in areas fully funded by the federal government.

The federal government should support the states' education efforts. Period. Our plan would reassert local control of Minnesota schools and reject this federal intrusion because it hampers local decision-making, burdens Minnesota teachers, and prevents our kids from excelling in what is fast becoming a global workplace.

Arguably the worst result of NCLB has been the growth of a mindset of "teaching to the test" that has developed in our schools. In addition, we have dropped the bar for our most gifted and talented students, who are easy to ignore when schools are focused on getting each group of kids to clear the mandatory federal hurdle.

Please don't get us wrong: Measuring progress, setting standards, and testing are critical. But we can do all that here in Minnesota. Indeed, our state already had statewide testing and reporting in core academic subjects before NCLB, and we had schools that led the nation in pre-college tests such as the ACT.

One of the criticisms of our proposals is the potential loss of federal funds (an estimated \$150 million annually). Frankly, it is difficult to imagine Congress cutting funding for schools under any circumstances. In any event, our bill would

ask the feds to repackage these funds in the form of a block grant. This grant could be used to cover a decades-long shortfall in federal special education funding or for other programs such as early childhood education, tutoring or scholarships for struggling students.

Our neighborhood schools are not a branch of the federal government. Ninety-five percent of the education dollars spent in Minnesota comes from state and local sources. Why should we turn our schools over to federal bureaucrats who are only contributing five percent of the funding?

A 21st century education demands more personal attention and flexibility from teachers and principals, not a sprawling and impersonal federal bureaucracy. The time has come to send a strong message to Washington D.C.: We want to take back Minnesota schools.

Senators Geoff Michel, R-Edina, and David Hann, R-Eden Prairie, represent Minnesota Senate Districts 41 and 42, respectively.

CONFLICT OF INTEREST?

According to the non-partisan group Center for Responsive Politics, 151 members of Congress (out of 535, or 28.2%) hold investments worth **\$78.7 million to \$195.5 million** in companies that receive defense contracts that are worth at least \$5 million. These investments earned them anywhere between **\$15.8 and \$62 million** between 2004 and 2006. This may pose a conflict of interest as Congress makes decisions concerning Iraq war spending.

Full article: <http://www.capitaleye.org/inside.asp?ID=342>

FAIRTAX UPDATE

Last year, we told you about a movement to introduce a FairTax, which would eliminate income and payroll taxes and institute a single-rate sales tax on goods and services instead. This has been supported by the National Taxpayers Union and Americans for Fair Taxation. The most recent version of the FairTax Act had six co-sponsors, though it has failed to get past the committee vote. With taxpayers confronting 155 pages of

Form 1040 instructions this year (four times the number from 1975 and triple the number in 1985), the FairTax may be a way to simplify the tax code.

Info on the FairTax can be found here: <http://en.wikipedia.org/wiki/FairTax>

WHERE SHOULD 2009/2010 BUDGET CUTS BE MADE?

When tax money flows easily or is the result of new taxes such as EDIT and CAGIT, elected officials with the charge of spending look for and find ways to spend every available estimated penny. This situation existed during the past four years. Initially, projects were limited to the original intent of the law, but the Indiana Legislature relaxed the rules three years ago, and relatively new dollars became available for a broader scope of projects. The TA tracked most of these major projects and determined that there was minimal objection to their proposals.

Now, officials are facing major shortfalls as a result of the recently enacted House Enrolled Act **1001**. It is projected 2010 will be the most difficult year. The TA does not have to worry about any new money being wasted unless another new tax known as **COIT** is approved. It is the opinion of most taxpayers that this new tax not be allowed and budget cuts should be the rule.

It is our opinion that all units should do some or all of the following:

- 1** Find a way to reduce their specific budgets by some percentage that is equal for all.
- 2** Encourage all government employees to work a little harder and smarter and volunteer a small amount of time per week to causes that suffer significant budget cuts.
- 3** Develop an effective incentive program whereby public employees are rewarded for cost cutting ideas that prove to be effective.
- 4** Practice the team concept and work together to achieve common goals. Examples—Fire, Security, Education, Parks & Recreation, Transportation, City & County Engineering/Highway.
- 5** Assure that equal services are provided to all townships for capped taxes paid.
- 6** Encourage all public employees to help Vigo County grow its assessed valuation. **If** levies are reduced and the assessed valuation grows, **taxes will be reduced.**

LOIT (Local Option Income Tax) – NEW PROCEDURES

According to an article titled “New procedures to adopt a Local Option Income Tax” written by Gary Malone, CPA, and Executive Partner of Umbaugh and Associates, LOIT can provide several alternatives for increasing revenue. It can pay for budget increases rather than funding

through an increased levy; it can provide dollar-for-dollar property tax relief; and it may pay, under certain conditions, for the cost of public safety.

In the area of public safety, an entity or pooled entities must adopt at least a 0.25% rate to enact a 0.25% LOIT. The

revenue may not be used for lease or bond payments.

HEA 1001 established deadlines to allow LOITs to make a difference quickly. A LOIT enacted before October 1 can be effective on October 1. There are varying deadlines and effect times for the remainder of the year. Beginning with 2009, adoption must occur between April 1 and July 31.

The new law also requires a report by November from the Commission on State Tax and Financing Policy on a study of LOIT allocation and it requires reports and the development of

procedures by the Department of Revenue to ensure that the tax is distributed accurately.

A LOIT in a CAGIT county (such as Vigo) must be adopted by the County Council. There is no municipal adoption mechanism.

Counties must make an annual decision to increase LOITs or levies. HEA 1001 also allows counties to reallocate LOIT revenue annually. Political subdivisions may continue to receive COIT, CAGIT, and EDIT allocations that would be lost through the elimination of levies.

Table of Contents of Tax Matters Issues 08-13 through 08-25

Just in case you wish to refer to a previous issue of Tax Matters and need some help locating a particular topic, you may refer to the table below. Many of the topics are also included in an issue of Tax Topics. This issue of Tax Topics includes Tax Matters through June 19, 2008 and this table does the same. The next issue will continue from this point.

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