Americans may not realize it today, but the legislation enacted by the 111th Congress will be seen in the years to come as major victories for working people. The legislation that Citizens for Tax Justice was most involved in — the economic recovery act, health care reform and several smaller jobs bills — will have positive effects on Americans everywhere. They reduced unemployment significantly below what it would otherwise have been and will end the worst abuses and inefficiencies in our health care system.

But many Americans understandably only see that unemployment is still unacceptably high and the health care law is a long way from taking effect. In frustration, voters opted for what they believed would be a change from the status quo.

One day, when Americans will have good jobs again, it will become clear that the collapse would have been far greater without the economic recovery act. One day, it will become clear that Speaker Pelosi’s Congress stopped health insurers from discriminating against people with pre-existing health conditions and capping benefits when people get sick, and it’ll be clear that 32 million Americans owe their coverage to this legislation. The progressive accomplishments of the 111th Congress will then get the credit they deserve.

There will also come a day, probably not too far off, when Americans realize that the incoming House leadership does not have much of a plan for America other than slashing programs that the middle-class depends on and providing more tax breaks for the wealthy investor class.

An exit poll done for the Associated Press on Election Day gave voters three alternatives for Congress to focus on, and found that four out of ten voters wanted Congress to focus on reducing the budget deficit, an equal number wanted Congress to focus on creating jobs, and the remainder wanted Congress to focus on cutting taxes. An exit poll conducted for the AFL-CIO showed that 63 percent of voters believed that the Bush tax cuts should expire at least for taxpayers with incomes above $250,000.

Unfortunately, the team that will lead the majority party in the House of Representatives has offered tax cuts that would increase the budget deficit, and they have no plan for job creation other than those same tax cuts, which failed to create prosperity. The House and Senate GOP leadership team all got F’s on CTJ’s legislative report card for each of the six years of the
Bush administration in which Congress voted on a major tax cut. John Boehner, the presumptive Speaker of the House, recently offered a plan that he openly describes as taking us back to the policies in place in 2008, the last year of the Bush administration (even though the plan would actually cut spending dramatically lower than that), and of course this includes extending the Bush tax cuts for even the richest taxpayers.

The likely chairman of the House Budget Committee, Paul Ryan, is best known for his “Roadmap,” which a CTJ analysis found would slash taxes for the richest 10 percent, raise taxes on the remaining 90 percent and would lose $2 trillion over ten years. It’s difficult to design a tax plan that would raise taxes on the bottom 90 percent of taxpayers and still lose $2 trillion, but Congressman Ryan has boldly met that challenge.

Of course this turned out to be fairly moderate compared to the plan released by the conservative Republican Study Committee (RSC) several months later. A CTJ analysis of this plan found that it would cost $7 trillion over ten years (or $10 trillion if you include the costs of extending the Bush tax cuts). By the second year, more than three quarters of the tax cuts would go to the richest 5 percent of taxpayers and about 62 percent of the tax cuts would go to the richest 1 percent. Given the makeup of the newly elected Republicans, the RSC will probably have more members — which means more support for this sort of plan.

Then there’s the Republican leader in the Senate, Mitch McConnell, who will have a larger caucus, even if not a majority. Senator McConnell said recently that he believes tax cuts pay for themselves!

The Budget Battle Ahead

It would be easy to laugh at the bizarre proposals and convoluted justifications put forth by the anti-tax lawmakers in Congress, except that the stakes are far too high and much too serious. As Congress decides what to do about the long-term budget deficit, it must decide how much we will rely on revenue increases (and what type of revenue increases) and how much to rely on huge cuts in government programs that ordinary Americans rely on. The 112th Congress will almost certainly make the wrong choices if we don’t stay involved.

The President’s fiscal commission, which was created to recommend ways to balance the budget, might end up making matters worse. The proposals recently put forth by the two co-chairs of the commission rely on spending cuts for two-thirds of the deficit reduction and rely on tax reform, tax loophole-closing and other revenue changes for just a third.
A recent report from CTJ explains that the commission co-chairs’ approach makes little sense because the United States is already one of the least taxed countries in the developed world. Federal, state and local tax revenue in the U.S., measured as a share of gross domestic product, is the third lowest of the developed countries for which data is available. Of course, you’d never guess that the U.S. is actually under-taxed if you listened to “Tea Party” activists talk (or yell) for any extended period of time. Since the next Congress will include several newcomers who were Tea Party favorites, it will be even more difficult to make Congress face this fact.

The danger posed by the 112th Congress is not just to the legislation passed in the 111th. If Congress refuses to increase revenues, that will dramatically increase the chances that any real measures to limit budget deficits will target Medicare, Social Security, transportation, education and other programs that working people depend on. In fact, Congressman Ryan’s “Roadmap” makes dramatic cuts in these programs. Remember also that Congressman Ryan is probably considered a moderate by the newly elected Tea Party Republicans.

So the coming battle is not just about defending the progressive achievements of the last two years. It’s about defending the progressive achievements of the last 75 years.
Dear Friends,

Early in 2010 we saw some spectacular victories. Late in 2010 we were reminded that we have to fight harder than ever to defend those victories.

In March of this year, after we had spent about eleven months in a massive campaign with think tanks, labor unions, faith-based groups and other advocates to find progressive ways to pay for health care reform, Congress and the President enacted the health care reform law that includes our proposal to make the Medicare tax fairer. This proposal helped resolve a stalemate in Congress over how the reform would be financed.

After that, we quickly shifted to the many other crises confronting Congress. CTJ produced reports and engaged in lobbying on several major issues. First, we explained the merits of proposals to crack down on tax evasion and tax loopholes as ways to pay for legislation to create jobs. This includes provisions that were signed into law to prevent offshore tax evasion, as well as proposals targeting loopholes, like the infamous “carried interest” loophole for managers of buyout funds.

Second, we focused on the expiring Bush tax cuts, comparing President Obama’s plan with the Republican plan and addressing some of the myths about how tax cuts affect small businesses and the economy. Third, we met with members of the President’s fiscal commission and gave several of them technical advice about the potential impacts of various proposals to reduce the budget deficit.

Finally, we issued several reports on radical right-wing tax plans that are starting to look as though they could actually be enacted if we’re not vigilant. These include Congressman Paul Ryan’s plan to slash taxes for the richest 10 percent, raise taxes for the poorest 90 percent and lose $2 trillion in revenue. It also includes Senator Arlen Specter’s regressive flat tax proposal, and the House Republican Study Committee’s plan that would cost an amazing $7 trillion, three fourths of which would go to the richest five percent of taxpayers.

Altogether, CTJ has released about 40 reports this year and written hundreds of articles for our weekly Digest that is read by Hill staffers and national news reporters. We have participated in over 60 lobby visits and meetings with officials in the Obama administration, including Treasury Secretary Timothy Geithner. We also have provided a dozen non-public analyses at the request of lawmakers who were privately contemplating various tax policy ideas. CTJ staff spoke at press events on tax issues with House and Senate leadership, and has been quoted or cited at least 80 times in national and local news media this year.

ITEP spent the year addressing equally dramatic crises at the state level, where anti-tax lawmakers responded to burgeoning budget deficits the same way they’d previously responded to surpluses: by proposing huge, regressive tax cuts. During 2010, ITEP helped to highlight the unfairness of plans to cut capital gains taxes in Georgia, replace Missouri’s income tax with a so-called “Fair Tax” patterned after a national sales tax plan, and balance California’s budget on the backs of middle-income families. ITEP also drew attention to misguided efforts to balance state budgets by repealing valuable low-income tax credits, and continued to beat the drum for tax fairness by publicizing the findings of our “Who Pays” report, which measures the unfairness of state tax systems in every state.

Everything we’ve accomplished will be at stake during the next two years. Many incoming freshmen in Congress have already pledged to repeal health care reform, but that’s only the beginning. Congress and the state legislatures must address major budget shortfalls. If we don’t convince the public that there are viable ways to raise revenue, that means lawmakers will target other large items in the budget, like Social Security and Medicare at the federal level and education, health care and transportation at the state level. With your support, we can defend these progressive accomplishments.

Bob McIntyre
For anyone who remembers California’s “Proposition 13” property tax caps, it will come as no surprise to hear that the tax-related measures on state ballots this November were, in general, poorly-designed attempts to hamstring responsible fiscal policy. (A welcome exception was an effort spearheaded by progressives in Washington State that would have introduced a personal income tax in that state, but that measure was rejected.) Some of these ill-conceived measures took the form of outright tax cuts, while others were designed to impose new limits on the ability of states to hike taxes in the future. But the good news was that voters rejected some of the most damaging tax-cut plans on November ballots, in a welcome repudiation of the “Tea Party” agenda. In Massachusetts, voters defeated a measure that would have cut the sales tax rate by more than half. In Colorado, three measures that would have wreaked havoc on the state’s budget were each soundly defeated.

Advocates of sound fiscal policy were less lucky in Washington State, where voters achieved the dubious trifecta of repealing a recent sales tax hike, rejecting a proposed progressive income tax, and making it harder for lawmakers to increase taxes of any kind in the future. California and Indiana voters also passed measures that will make it harder to raise taxes when lawmakers return to deal with budget deficits next year.

In a number of states, voters’ confidence in the electoral process was shaken by the sight of big business successfully using its deep pockets to influence the outcomes of ballot measures on tax issues. In Washington and Massachusetts, the beverage and alcohol industries poured millions of dollars into campaigns to see that recently-enacted sales taxes levied on their products were repealed. The parent company of Fox News spent $1.3 million to defeat a California measure that would have closed corporate tax loopholes, while a single wealthy Missourian, Rex Sinquefield, spent more than $10 million of his own money in a successful effort to require voter approval of local income taxes in that state. And real estate interests in Missouri and Montana spent millions in a successful effort to place a constitutional ban on real estate transfer taxes in those states.

Here’s a quick overview of the biggest stories from this year’s ballot measures:

**Personal Income Tax**

**Washington: Initiative 1098 – FAILED**
Initiative 1098 would have introduced a personal income tax applicable only to the richest Washingtonians, using some of the revenue gain to cut the statewide property tax and eliminate the state’s gross receipts tax on many small businesses. With the failure of this progressive plan, Washington remains one of only nine states with no broad-based personal income tax.

**Colorado: Proposition 101 – FAILED**
Proposition 101 would have reduced Colorado’s income tax rate and eliminated various fees, to the tune of $2.9 billion a year. This was one of three measures on Colorado’s November ballot that were designed to hamstring the state’s ability to adequately fund public services. Each measure failed convincingly, in a welcome victory for sane fiscal policy.

**Business Tax Breaks**

**California: Proposition 24 – FAILED**
Proposition 24 would have eliminated several misguided business tax breaks the legislature had enacted in recent years. In rejecting these loophole-closing opportunities, California voters also rejected the opportunity to eliminate more than $1.3 billion in unwarranted corporate giveaways.
Local Earnings Taxes

Missouri: Proposition A – PASSED
Proposition A requires residents of St. Louis and Kansas City to decide, in a separate vote next spring, whether local earnings taxes levied in those two cities should continue to exist, and also prohibits other localities from levying a local income tax. Despite the millions poured into this campaign by earnings-tax foe Rex Sinquefield this year, city voters clearly registered their preference for keeping the tax, which represents one-third of St. Louis city revenues. But as a result of the measure’s passage statewide, residents of these two cities will have to restate this preference on a spring 2011 ballot.

Supermajority Voting Requirements

Washington: Initiative 1053 – PASSED
Initiative 1053’s passage means that all tax increases must be approved either by a two-thirds majority in the legislature or a vote of the people. This also means that even the most sensible efforts to close unwarranted tax loopholes can be shot down by a minority of anti-tax lawmakers when Washington lawmakers convene next year.

California: Proposition 25 & Proposition 26 – PASSED
A mixed bag for fiscal policy voting rules in California. The passage of Proposition 25 means lawmakers will no longer need a two-thirds supermajority to pass each year’s state budget. However, Proposition 26 institutes a new supermajority requirement for raising certain fees. This gives fee hikes the same hurdle as tax increases, which already require a two-thirds supermajority.

Sales Taxes

Massachusetts: Question 1 – PASSED
Massachusetts: Question 3 – FAILED
Question 1 removes the sales tax on alcohol, which was added last year as part of a budget-balancing deal. Question 3 would have cut the state’s sales tax rate from 6.25 to 3 percent, losing $2.5 billion a year.

Washington: Initiative 1107 – PASSED
Initiative 1107 repeals a sales tax hike enacted by the state legislature earlier this year, which applied the sales tax to soda, bottled water, and candy. Bankrolled by the American Beverage Association, this measure throws the state’s budget into jeopardy once again.

Property Tax Caps

Indiana: Public Question #1 – PASSED
This measure limits property taxes to 1 percent of value for owner-occupied homes, 2 percent for rental property and 3 percent for business property. These limits already existed as regular laws; the measure simply makes them harder to repeal by enshrining them in the state constitution.

Colorado: Amendment 60 – FAILED
Amendment 60 would have taken away the ability of voters to opt out of Colorado’s TABOR limitations as they relate to property taxes and would have required school districts to cut property tax rates in half over the next ten years, replacing the lost revenue for K-12 schools with state funding.

Want to know more about the impact of this November’s elections on tax policy in your state? Check out www.ctj.org/taxjusticedigest.
In Oklahoma, the first $600 won in a competitive livestock show is exempt from tax. In Hawaii, residents can deduct up to $3,000 on their state income taxes to care for a tree that a certified arborist has deemed to be “exceptional.” In Louisiana, you can buy binoculars tax-free during the “Second Amendment Sales Tax Holiday,” but only if you plan to use them for hunting — not birdwatching.

None of these provisions are all that significant taken on their own. But surely, none of them belong in any state’s tax code. A new report from CTJ looks at why it’s become so easy to enact almost any tax break imaginable, and what state and federal lawmakers should do to curb their own addiction to enacting new tax breaks.

The report, titled *How to Enact (and Maintain) Tax Reform*, looks at the problems created by lawmakers’ over-reliance on tax breaks, and discusses seven types of reforms for dealing with these problems. For example, most tax breaks are available indefinitely, without any limits on their size, much less any formal review. This can create big problems when the cost of certain tax breaks grows far larger than expected, as often happens over time. In Missouri, for example, this problem has been on full display, as a recent report from the State Auditor revealed that lawmakers accidentally spent over $1 billion more on tax credits, over a five-year period, than they originally intended.

In order to address this problem, the report recommends placing limits on the overall cost of particular tax breaks (as is already done with some business tax credits), and forcing lawmakers to reevaluate existing tax breaks by requiring that they expire after a certain number of years. The report is available on CTJ’s website at www.ctj.org.

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**What Lawmakers Say about CTJ**

“Since the founding of CTJ in 1979, you have been a strong voice for middle-income and low-income American families in the development of our nation’s tax laws and policies. You can take great pride in your success and I commend you for your unwavering commitment to tax reform that closes corporate loopholes, ensures both fairness and simplicity, and promotes responsible fiscal policies. CTJ’s efforts have had an important and positive impact on tax policies at every level of government and have earned you the trust of citizens and public officials alike.”

*President Bill Clinton, October 19, 1999*

“CTJ is a voice for real fairness, for justice, in our tax system, a voice for those who believe in closing special-interest loopholes and enforcing compliance with the tax code. CTJ is there every day and every week, with detailed analysis of tax proposals, alternative ideas, and good suggestions. Bob McIntyre, CTJ’s longtime and tireless leader, is one of its driving forces and a terrific public servant who has dedicated his life to tax justice. Washington would be a much poorer place and even more skewed to the powerful interests without Citizens for Tax Justice…”

*Senator Carl Levin of Michigan on CTJ’s work on federal tax policy, October 21, 2009*

“...the only ally we had was this guy and this organization... And the commitment was always to a simple idea: fairness. What’s fair for everyone and what’s fair for ordinary Americans who don’t have much of a voice in our country and in our capitol, certainly on tax matters, which are usually esoteric, complicated issues that nobody quite understands.”

*Former House Democratic Leader Dick Gephardt on CTJ’s role during tax debates, October 21, 2009*
Help Us Defend Progressive Achievements

CTJ and ITEP are held in good standing by elected officials, journalists and the American public because we can be depended upon to give accurate and timely analyses of the various tax issues that are before Congress and state legislatures. Yet, despite all that goodwill, we, like so many, have been negatively affected by the economic downturn.

With a new Congress considering cuts in Medicare and Social Security, repeal of the new health care reform, weakening of the recent financial reforms and who knows what else, CTJ and ITEP’s work is needed more than ever. The newly elected lawmakers don’t mince words. They explicitly say they want to attack programs that average Americans depend on and give even bigger tax breaks to big corporations and the very wealthy.

Whether they know if or not, voters in the last election turned control of our government over to corporate-funded politicians who want to repeat and expand on the mistakes of the past. But it is up to us to make sure our nation does not revert to those disastrous policies.

So, if you have the means, please consider a generous end-of-the-year donation to one or both of our organizations. Together, we can weather the storm.

With gratitude,
The staffs of CTJ and ITEP