

STATE REPRESENTATIVE

DEAN KNUDSON

30TH ASSEMBLY DISTRICT

January 23rd, 2014

Testimony on AJR 79

Assembly Committee on Ways and Means

Mr. Chairman and members,

Thank you for holding a hearing on AJR 79, and affording me this opportunity to testify in favor of the measure. AJR 79 would require a 2/3 vote of the Legislature in order to increase the state sales, income or franchise tax. Several years ago, the Legislature passed AB 5, a statutory change with the same requirements. While this was a positive step, Wisconsin's hard working families deserve to know that their tax bill will not increase due to the whims of a simple majority.

Passage of this amendment would be a strong signal of this legislature's continuing commitment to protecting taxpayers. We have heard from some groups that this amendment is unnecessary, and would tie legislature's hands during a budget crisis. Nothing could be further from the truth.

While it is true that we passed a statutory change to this effect, it would be, and has been in the past, all too easy for legislators to change their actions in order to take the easy way out. Should a budgetary crisis of such significance emerge, the legislature could marshal its forces and reach the 2/3 requirement, or make the tough decisions to stay in line with fiscally responsible practices.

Additionally, this amendment cannot become valid without the people's consent in a statewide referendum. Ultimately, only the people will decide whether this is the path the state should take. Should significant tax reform take place, this amendment still allows that to happen with a 2/3 vote of the legislature or a vote of the people.

I do not believe making it more difficult to raise taxes is a bad thing. It becomes all too easy for those of us in office to pretend as if we have endless resources at our disposal. Allowing taxpayers to keep more of their money, and erecting barriers to those who would take more away, is a central part of governing in a fiscally responsible manner. Thank you for your time, and I am happy to take questions.



Wisconsin Independent Businesses Inc.
The voice of independent business in state government

**Testimony submitted on Thursday, January 23, 2014 before the
Assembly Ways & Means Committee
2013 Assembly Joint Resolution (AJR) 79**

Chairman Marklein, committee members, my name is Brian Dake, Legislative Director for Wisconsin Independent Businesses. On behalf of WIB and its members, I am here to testify on 2013 Assembly Joint Resolution (AJR) 79.

By nearly every objective measure, Wisconsin's state-local tax burden ranks among the highest in the nation. Reducing this burden on our small business and farmer members is among our top legislative priorities.

Last year, WIB lobbied in favor of the across-the-board reduction in state individual income tax rates, stronger state-imposed limits on local government spending and the \$100 million property tax relief plan. Collectively, these proposals will reduce the state-local tax burden on our members.

We appreciate the support of state legislators who voted to put these meaningful tax relief measures in place. We look forward to working with state lawmakers on additional efforts to reduce the state-local tax burden.

That said, for WIB, preserving and protecting the beneficial aspects of the state's existing tax code for small businesses and farmers is also a high priority.

Wisconsin's existing tax code includes beneficial state sales tax treatment for goods and services purchased by farmers. Wisconsin's current tax code allows many local small businesses to provide their customers and clients with services that are not subject to the state's sales tax.

To preserve and protect these beneficial aspects of Wisconsin's existing tax code, we respectfully ask for your support of a "friendly-amendment" to AJR 79 which would extend the two-thirds legislative supermajority vote requirement to expansion of state's existing sales tax base.

If approved by successive legislatures and ratified by Wisconsin voters, AJR 79 will greatly enhance the ability of future legislatures to bring down Wisconsin's state-local tax burden.

Adding an amendment to AJR 79 which extends the two-thirds legislative supermajority vote requirement to expansion of state's existing sales tax base, will make it much easier for future legislatures to preserve and protect the beneficial aspects of Wisconsin's existing tax code.

Thank you in advance for your consideration of our request.



WISCONSIN COUNCIL ON

children
& families

Raising Voices to Make Every Kid Count

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DATE: January 23, 2014

TO: Assembly Ways and Means Committee

From: Jon Peacock, Research Director
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RE: Opposition to AJR 79 – requiring a supermajority vote for certain tax rate increases

Chairperson and Committee:

The Wisconsin Council on Children and Families (WCCF) is the only multi-children's issues advocacy organization in the state. We provide research and policy recommendations on health care, juvenile justice, early care and education and the state budget. WCCF's mission is to ensure that all children grow up in a safe and nurturing environment.

On behalf of WCCF, I'm here today in opposition to AJR 79. Our concerns about the resolution can be summed up very simply: we think it would be a serious mistake to tie the hands of future legislators by putting the supermajority requirement into the state constitution.

As you consider this resolution, please keep in mind that tax rate increases are rare events – at least for the three types of taxes that are the subject of this resolution. Over the last few decades, there have been numerous increases in other areas, such as the gas tax rate, tobacco taxes, and in a wide variety of fees, but not in the rates for the three taxes enumerated by this proposal:

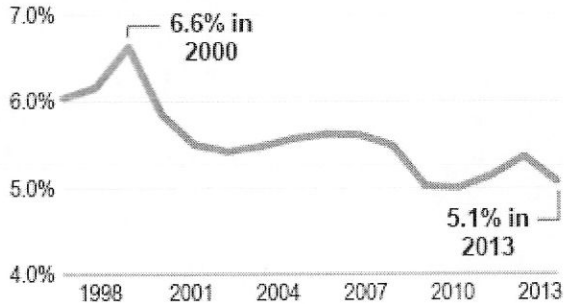
- The corporate income tax rate was last increased 32 years ago;
- The state portion of the sales tax rate was also last increased 32 years ago; and
- Individual income tax rates have increased only once in the last 28 years. That rate increase took place in 2009, during the Great Recession, and it affected only about 1% of tax filers. (Income tax rates have also decreased several times over that 28-year period.)

The graph on the next page shows that the revenue generated by those three types of taxes has fallen significantly over the last 15 years, when measured as a percentage of personal income. In fact, since that percentage peaked at 6.6% in 2000, it dropped to 5.1% in 2013, a decline of almost one fourth. I suspect that line will continue to decline in 2014 and 2015, and perhaps well into the future.

Of course, since rate increases in these three types of taxes are rare, why are we concerned about a resolution that creates larger hurdles for increasing those rates? There are several reasons.

Tax Revenues Falling as a Share of Income

State individual income, corporate income and sales taxes combined as a share of personal income.



Source: Wisconsin Department of Administration,
U.S. Bureau of Economic Analysis
WISCONSIN BUDGET PROJECT

First, although we expect those tax revenues to continue to decline relative to income for a number of years, there could come a point at some future date when it becomes apparent that those taxes should be allowed to bounce back to some extent, in order to help close a gap caused by a new recession or some other urgent problem. Your successors shouldn't be precluded from addressing a future fiscal crisis in a timely way by putting them into a constitutional straightjacket.

Second, the proposed resolution could make it very difficult to pass a tax reform plan that increases some rates to offset decreases in other rates. Even if such a plan is cost neutral or actually results in a net tax cut, it couldn't be enacted by the Legislature without a two-thirds vote in each house.

Third, the proposed constitutional change is likely to have unintended consequences. For example, it could result in increases in other sorts of revenue, such as excise taxes, fees and college tuition. It could also put upward pressure on property taxes by limiting the state's ability to provide property tax relief.

Finally, the constitutional amendment could increase costs for transportation projects and other long-term investments that require bonding, because constitutional limits on state options are a red flag to bond rating agencies. Hurting the state's credit worthiness could cause a very substantial increase in borrowing costs for highways, bridges and other capital improvements.

To sum up, we think it would be short-sighted to limit the ability of future lawmakers to make decisions in response to changing circumstances.

Thank you for this opportunity to express our views. I would be happy to field any questions you may have.