

Hold the Tea Party, Some Voters Want Their Taxes Raised

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William Gates, Sr., father of Microsoft ([MSFT](#)) co-founder Bill Gates, has a simple message for legislators in Washington state -- raise my taxes.

The retired Seattle lawyer backs a ballot initiative that would enact an income tax on individuals earning more than \$200,000 a year and couples earning more than \$400,000. Backers of the measure estimate that it would raise \$1 billion a year to fund health care and education.



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His reasons for wanting to fork over more money to the government are simple. "Poor people and middle-income people are paying too much to support the state, and rich people aren't paying enough," he tells [Bloomberg](#). "That's the starting point for me."

Arizona Voters Go for Tax Hike

Think his views are out of the mainstream? Not at all. [Warren Buffett](#), the world's greatest investor, has made similar statements for years. And now, as budget deficits in state and local governments mushroom, many politicians and businesses are pushing hard for tax increases.

Consider [voters in Arizona](#), whose ultra-conservative legislature has declared illegal immigrants to be public enemy No. 1. Yesterday, Arizonans overwhelmingly agreed to a temporary increase in the sales tax to avoid deeper cuts in education and other services. Even with the increased money, Arizona State University analyst Kirstin Borns told the [Associated Press](#) that the increase was a "Band-Aid" to address the state's \$2.2 billion structural deficit, which on [a per-capita basis is the nation's worst](#).

South Carolina Governor Mark Sanford is fighting the state legislature's efforts to raise fees on cars, boats and hunting licenses. Sanford's veto of a hike in [South Carolina's cigarette tax was overridden](#). The governor was able to fight off an increase in court fees.

[Kansas' Republican-controlled legislature](#) recently passed an increase in the state's sales tax to protect social services and education from [an expected deficit](#) of \$510 million. New Jersey's legislature is trying to impose a temporary tax increase on residents who earn at least \$1 million annually despite [Governor Chris Christie's threatened](#) veto. [Minnesota Governor Tim Pawlenty](#) resisted a similar effort from his legislature.

"It appears to be a trend," says Jon Shure of the liberal-leaning think tank Center on Budget and Policy Priorities. "A balanced approach appeals to people's pragmatic side. People need a certain level of services and, we have found out, are willing to pay for them."

Conservative Resistance

All of these tax increases and proposed hikes are annoying fiscal conservatives who advocate lower taxes and limiting the size of government.

"The states have put themselves in this situation by doing a poor job in managing their finances," says Tad DeHaven, a budget analyst at the Libertarian Cato Institute. "I don't think that voters truly appreciate how government spends money at the state and local level."

Indeed, a report from Northwestern University's Kellogg School of Management estimates that states have underfunded their pension liabilities [by a whopping \\$3.2 trillion](#). New Jersey's Christie has been hammering that message for months, arguing the state can no longer afford to fund generous benefits for state workers and teachers. Unions, such as the New Jersey Education Association accuse the governor of declaring "an all-out assault on public employees and services." Meanwhile, conservatives such as Americans for Tax Reform say they found the government's approach "refreshing."

Trying to Plug Revenue Gaps

Christie has vowed to not to raise taxes and backs an amendment to the state constitution to limit property tax increases to 2.5% annually. The state's property taxes have risen by 70% over the last decade and are blamed as one of the reasons why people leave the Garden State. A bill pending in the state legislature would give homebuyers [a credit of up to \\$15,000](#)

over three years or 5% of the purchase price, whatever is less. Backers of the bill say they expect the bill to pass and Christie to sign it, though a spokesman for the governor did not return a phone call seeking comment.

"It will stimulate more people to buy homes," says Doug Fenichel, a spokesman for K. Hovnanian, the state's largest builder and part of Hovnanian Enterprises (HOV), adding that it will help ease a buyer's property tax burden. "It will get more people to come into the market now rather than later."

This will give the state's struggling builders a boost. K. Hovnanian employs 517 workers now in New Jersey, down from 1,260 in 2006. IHS Global Insight economist James Diffley argues that the proposal will only encourage people to buy homes who would have purchased homes anyway, an argument its proponents reject, pointing to the success of similar moves in California and at the federal level.

According to the [Tax Foundation](#), 45 states collected less tax revenue in 2009 than 2008. Thirteen states saw double-digit declines. Increasingly, politicians are willing to risk the wrath of their constituents by raising taxes, something that would have been unthinkable before the Great Recession. Only time will tell if voters will hail them for their political courage or scorn them for their naivete.

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