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Hard-pressed leaders pass nuisance taxes

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State and local governments are raising taxes and inventing new ones as they scramble to balance their budgets even as the nation's economy begins to emerge from the deepest recession in seven decades.

State budgets typically take a year or two to reflect improvements in the national economy, the National Association of State Budget Officers and the National Governors Association explained in its latest fiscal survey of states. The report warned that "state fiscal conditions will remain weak in fiscal 2010 and likely into fiscal years 2011 and 2012."

So, brace yourselves for a deluge of nuisance taxes, sin taxes and "fees," limited only by the imagination of revenue-starved governors, mayors and legislators.

Raising fees and nuisance taxes amounts to nothing more than "tax adventurism," said Jonathan Williams of the American Legislative Exchange Council, a nonpartisan organization of state legislators.

Governors and legislators "often raise taxes and increase fees during tough budget times before resorting to hiking broad-based income and sales taxes," said Mr. Williams, who co-authored the recent book, "Rich States, Poor States."

Frequently, the targets are out-of-state visitors who find themselves paying higher car-rental taxes and hotel taxes, as they will in Orlando, Fla., Nevada and Hawaii, Mr. Williams said.

The Internet is also becoming a bigger target. New York recently implemented an "Amazon tax," which will require small businesses to charge sales taxes for goods they sell over the Internet.

Cameras catching speeders and red-light crashers have become more ubiquitous in Montgomery County and the District of Columbia since the recession began in late 2007. Turnpike and bridge tolls have also been rising across the nation. The car toll for the Golden Gate Bridge in San Francisco, for example, jumped 20 percent to $6 last September.

Even "man's best friend" could not escape the clutches of revenue raisers in Massachusetts. The Democrat-dominated legislature there slapped a $3 state surcharge on municipal licensing fees that dog owners must pay for their pets. Angry Republicans immediately dubbed the bill "Toby's Law" in honor of Democratic Gov. Deval Patrick's Labrador retriever.

The costs of getting married — or divorced — are also rising in some jurisdictions.

If the Pennsylvania House gets its way, the state marriage license fee will jump from $3 to $28. The additional revenue from this "marriage tax" will finance domestic programs by the Department of Public Welfare, prompting supporters to declare that one staunch opponent of the increase "clearly has a problem with preventing domestic violence in Pennsylvania."

In Iowa, the cost of a divorce increased to $100 after the state legislature doubled court fees for filing divorce papers.

States and localities are raising or introducing various sin taxes and fees because revenue streams from other sources are shrinking.

Obviously, as unemployment soared and consumer spending declined during the recession, revenue from income and sales taxes plunged across the country. But these revenues traditionally plummet during economic downturns. Many states responded by raising their income- and sales-tax rates.

However, for the first time, state and local revenues from gambling — impervious to previous recessions — fell during fiscal 2009, according to a recent report by the Rockefeller Institute of Government, which conducts independent research on state and local governments.

"State-local gambling revenues from lotteries, casinos and racinos [which combine racing tracks and casinos] declined by 2.8 percent in fiscal 2009," the Rockefeller Institute reported, noting it was "the first such decline in at least three decades."

Preliminary data from 39 states also revealed a 2.6 percent decline in income from state lotteries, which are the largest source of gambling revenue.

New Hampshire, which has neither a state income tax nor a state sales tax, became the first state to institute a state lottery in 1964. Now, 42 states derive revenue from them. To bridge the huge and increasing gaps between revenues and spending, at least 25 states have considered expanding their gambling operations in the past year, the Rockefeller Institute reported.

Several states, including California, North Carolina and Colorado, are considering broadening the sales tax to encompass more services.

Between 1970 and 2007, services as a share of household consumption increased from 31 percent to 45 percent, according to Michael Mazerov, a senior fellow at the liberal-leaning Center on Budget and Policy Priorities. Meanwhile, the traditional sales-tax base — durable goods (such as autos, furniture appliances) and nondurable goods (such as shoes and clothing) — declined as a share of household consumption from 39 percent in 1970 to 32 percent in 2007.

"During the boom years of the 1990s, states had little interest in updating their sales tax to reflect the shift toward a service-oriented economy," said Mr. Mazerov. "Now, several states are looking at taxing more services, and more may join them if states' budget problems continue."

Taxing services is a growing trend that has appeal to conservatives and liberals alike.

"Targeting random populations" — like smokers and drinkers — "is bad tax policy," said Joshua M. Culling, a state government affairs analyst at the National Taxpayers Union, which advocates lower taxes and smaller government. "Sound tax policy is lowering the tax rate and broadening the tax base."

Concerned that the application of the regressive sales tax to more and more services would disproportionately affect low-income households, Mr. Mazerov offered a solution that some conservatives could accept. "The sales-tax base expansion can be balanced with other changes in the tax code, such as a reduction in the sales-tax rate," he said.

Meanwhile, sin taxes on tobacco and alcohol have been playing a major role in state efforts to raise revenues, prompting some self-styled health care advocates to demand that snacks and soda and fatty foods such as meat and cheese should be taxed, as well.

"Obviously, it's nickel-and-dime time," said Tad DeHaven, a federal and state budget analyst at the libertarian Cato Institute. "They're going after the unpopular, the less defensible, more vulnerable items like cigarettes, cigars and alcohol."

Many sin-tax proponents cite Colonial-era British economist Adam Smith to justify their revenue-raising policies.

"Sugar, rum and tobacco are commodities which are nowhere necessaries of life, which are become objects of almost universal consumption, and which are therefore extremely proper subjects of taxation," Smith wrote in his 1776 capitalist manifesto "The Wealth of Nations."

From January through August, 13 states and the District of Columbia increased their tobacco taxes, according to a tally by Americans for Tax Reform (ATR), a conservative organization that advocates lower taxes and smaller government.

Rhode Island and Connecticut each raised their cigarette taxes by $1 to $3.46 per pack and $3 per pack, respectively. The cigarette tax in the nation's capital jumped 50 cents to $2.50 per pack. Mississippi Gov. Haley Barbour, a former chairman of Republican National Committee and lobbyist for tobacco companies, acquiesced to a 50-cent tax increase to 68 cents per pack.

To help close a $3 billion budget gap, Florida Republican Gov. Charlie Crist supported increasing the price of cigarettes. At first, however, he refused to acknowledge that a mandated price increase should be considered a tax.

"I'm not particularly fond of any taxes," Mr. Crist told reporters in March. "User fees may be a different item," he said, presumably with a straight face. In the end, Florida tripled its cigarette tax, raising it by $1 per pack.

Even North Carolina, home of Tobacco Road, increased its cigarette tax by 10 cents to a relatively minuscule 45 cents per pack.

If tobacco could not escape being targeted by North Carolina revenue raisers, it shouldn't be surprising that Kentucky bourbon suffered the same fate. Kentucky was one of eight states to raise alcohol taxes this year, according to ATR's tally. Kentucky applied the state's 6 percent sales tax to alcohol, including bourbon. (Kentucky also joined North Carolina, New Jersey and Vermont in raising both tobacco and alcohol taxes.)

Alcohol taxes have excited American passions literally for centuries. Fifteen years after Smith's classic was published, the young American government followed his advice and imposed a tax on liquor in 1791 to pay off debt from the Revolutionary War. Those taxes caused enough discontent to trigger the Whiskey Rebellion in Pennsylvania. President George Washington responded by invoking martial law, summoning the militias of several states, including Pennsylvania and Virginia, and personally leading troops into western Pennsylvania to suppress the rebellion.

Recent alcohol tax increases have unleashed their own cross-border activity. This year, Massachusetts revoked alcohol's exemption from the state sales tax, which it also raised from 5 percent to 6.25 percent. Alcohol taxes were projected to generate $79 million in revenue for Massachusetts this year.

Bay State alcohol consumers immediately discovered that the longtime price advantage enjoyed by New Hampshire liquor stores suddenly got bigger. The bulging price difference encouraged countless trips to New Hampshire, which, thanks to out-of-state customers, traditionally leads the nation in per capita hard-liquor sales. Even Massachusetts Democratic state Rep. Michael J. Rodrigues, who voted for the alcohol tax, was photographed recently loading New Hampshire liquor into his car, which is illegal.

"With so many states rushing to raise taxes on tobacco and booze, the levies frequently don't bring in the anticipated revenues because they drive black-market sales or because people cross state borders to buy their cigarettes and booze," said Mr. DeHaven of Cato.

Although cigarette taxes were raised 57 times between 2003 and 2007, the tax increases met revenue projections only 16 times, according to Mr. Culling, the state government affairs analyst at the National Taxpayers Union.

"Excise tax hikes frequently do not bring in the revenue, which is often tied to specific programs," Mr. Culling said. When the revenue doesn't materialize, other more general tax increases are imposed. That's one reason why nonsmokers should oppose cigarette taxes."

Even if sin taxes do not meet revenue projections, they still haul in lot of money. So much, in fact, that legislators are increasingly listening to health care advocates who have intensified their calls for soft-drink taxes and fat taxes.

"The science base linking the consumption of sugar-sweetened beverages to the risk of chronic diseases is clear," according to a paper published recently by the New England Journal of Medicine. "Escalating health care costs, and the rising burden of diseases related to poor diet, create an urgent need for solutions, thus justifying government's right to recoup costs."

The Physicians Committee for Responsible Medicine raised the soda-tax stakes by demanding a tax on high-fat, high-cholesterol foods. "Taxing sodas and cheeseburgers would raise prices at the drive-through window, but Americans would get that cash back in the form of lower medical bills," said Susan Levin, the committee's nutrition director.

The chief of Coca-Cola Co. disagrees. "I have never seen it work where a government tells people what to eat and what to drink," said Coca-Cola Chief Executive Officer Muhtar Kent. "If it worked, the Soviet Union would still be around."

The legislators of several states and the city of San Francisco are actively pursuing the idea of imposing soda taxes in the future. Even President Obama said a soda tax is "an idea that we should be exploring," although it is not part of any of the health care bills on Capitol Hill.