



ALLEGHENY INSTITUTE
FOR PUBLIC POLICY

Taxpayer Bill of Rights

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INTRODUCTION

Concerns and frustrations of taxpayers around the country about the amount of taxes paid as well as equity issues arising from taxes have engendered the development of a concept known as "Taxpayer Bill of Rights". This report compiles a Taxpayer Bill of Rights for use by state and local governments. There is a brief explanation and rationale for each of the proposed Rights.

Taxpayer Bill Of Rights

I) Taxpayers have the right to expect that government will perform only the basic, core functions of government such as public safety and health, criminal justice, and infrastructure development and maintenance.

II) Taxpayers have the right to pay the lowest possible taxes and to require the government to explore and utilize all available methods, including competitive bidding, outsourcing, and benchmarking to achieve the lowest cost delivery of services. Governments must be forbidden to give up its right to engage in competitive bidding or outsourcing through collective bargaining agreements.

III) Taxpayers have the right to require the government to adopt zero based budgeting for all departments, agencies, functions and grant recipients of the government and to require that expenditure limitation measures be adopted to prevent annual growth in outlays from ever exceeding personal income gains in the government's jurisdiction.

IV) Taxpayers have the right to have all departments, agencies, and authorities under the control of government be subject to a Sunset Provision. The legislative body must explicitly renew through an affirmative vote each department's, agency's and authority's continuation every four years. Therefore, all government-controlled entities must be intensively evaluated periodically in terms of the benefits they produce for residents and the cost they represent to taxpayers. On a staggered basis, one fourth of all affected entities would be reviewed each year. Any department, agency, or authority under government control which fails to deliver benefits equal to or greater than its cost will be discontinued. Failure to receive an affirmative vote to continue will be interpreted as a vote to terminate.

V) Taxpayers have the right to a guarantee that there will be no increase in tax rates or imposition of any new taxes without a voter referendum or supermajority of the legislative body.

VI) Taxpayers have the right to a reduction in taxes whenever the General Fund Surplus balance rises above 5 percent of general fund appropriations for any fiscal year. Any excess will be returned to taxpayers as a tax rate reduction or rebate in the first quarter of the next fiscal year. The General Fund Surplus balance will not be allowed to fall below three percent of general fund outlays.

VII) Taxpayers have the right to fair and equitable treatment in the assessment of taxes.

VIII) Taxpayers have the right to review all information and to have a full explanation of procedures used in determining their tax liability and access to all information in the possession of the government relevant to their filing an appeal and they have the right to a full and reasonable explanation of the government's authority to collect delinquent taxes, including procedures and notices that are required to protect the taxpayer.

Supporting Arguments and Documentation for the Taxpayer Bill of Rights

The following is a brief description of the rationale behind the individual rights contained in the Bill of Rights.

I. The Government will perform only basic, core functions.

The expansion of government into the provision of services that are not core government functions should be stopped and reversed for two reasons. First, in order to keep government as small and as unobtrusive as possible, it must not be allowed to venture into providing services that can be provided by the private sector. Golf courses and recreational “how-to” courses at community colleges hardly qualify as necessary government functions. The rule must be “Is the private sector already providing this service and if not, is it capable of doing so better than government? Does this program displace voluntary community or neighborhood networks?” [*Revolution at the Roots*] And it could be added, “Does the government activity justify taking money from the individuals who must work to earn it?”

Second, the government rarely performs its functions as efficiently or as inexpensively as does the private sector. Thus, money taken from the private sector to finance government will usually have a lower return to the taxpayers than money that remains in the private sector. Oft times, market signals are distorted and resources are misallocated. For example, taxpayer support of arts or performing groups can protect mediocrity while creating competition for privately produced, unsubsidized entertainment.

II. Taxpayers should pay the lowest possible taxes.

It is a given that citizens should pay no more taxes than absolutely necessary. In order for that to occur the government must spend no more than the minimum amount to achieve the appropriate level of services. To ensure that the minimum possible is being expended, the government must utilize proven methods to reduce expenditures. In those cases where the private sector offers the service, there should be a competitive bidding process, including bids from government employees, to determine how to most efficiently provide the service.

There is a vast number of examples of outsourcing and competitive bids from around the country which have resulted in enormous savings for taxpayers. Mayor Goldsmith of Indianapolis has turned more than 60 services from government monopolies into services that compete in an open market. In Indianapolis it is assumed that all services should be competitively bid. Between 1991 and 1994, the City cut payroll from 5,140 to 4,329 employees. Other cities across the a country have used the process of competitive bidding to save millions of dollars each year. For instance, Philadelphia saves \$16.4 million per year from 13 competitively bid services.

This taxpayer right also precludes the government from bargaining away the right to outsource or competitively bid government services. Known as the "public prerogative" this concept has been upheld in a Massachusetts court case by the United States Court of Appeals. [*Contracting Transit Services*, page 30]. Specific legislation can be drafted that forbids restrictions on competitive contracting and specifies that the right of the citizenry to obtain public services for no more than the market rate cannot be the subject of labor bargaining.

III. Require that the Government adopt zero-based budgeting and expenditure limiting measures.

To assist in the process of slowing and eventually reversing the level of government spending, zero-based budgeting and annual limits on increase of spending must be imposed.

Expenditure limits have been gaining acceptance since 1976, when New Jersey placed a cap on spending to hold it at or below the annual increase in per capita income. Other states have since followed that lead. Studies [*Making Government Work*, page 344] have demonstrated unambiguously that spending limit measures have been successful in reigning in the expansion of government. There is every reason to believe that similar results can be achieved at any government level.

Zero-based budgeting imposes a strong discipline on department head and those seeking funding to examine all their activities to ensure their worthiness to be continued.

IV. Require a Sunset Provision for all departments, agencies and authorities under the government's control.

Sunset provisions are a widely used tool designed to bring about an end to regulations and government functions that have ceased to be relevant or cost effective. In many cases, these activities or rules have continued out of sheer inertia or because a vocal interest group has brought enough pressure and influence to bear to prevent the demise of the activity. The general public, meanwhile, often has little direct knowledge of, or interest in, the particular activity and as a result there is no public clamoring to discontinue a particular department, function or regulation.

A classic example is the Federal Helium Reserve. Formed in the 1920s to supply army zeppelins, the reserve has enough inventory to last 100 years. Why does it continue in an era of plentiful private sector supply? If a sunset provision were invoked, it would be unlikely to garner enough votes to be maintained.

In Tennessee, South Carolina and other states, the sunset law has been used to effect meaningful reform in state governments. The same could easily be done at any government level. Indeed, the Allegheny County commissioners approved a sunset law in 1996.

An explicit legislative vote to renew a department, activity or regulation must be required. Passive acquiescence will not be enough to ensure that the sunset provision will be effective in carrying out its intent.

V. No tax increase without a voter referendum or supermajority vote by the legislative body.

The best single way to force government to limit its size and force it to focus on its basic, legitimate functions is to constrain its revenues. If citizens must approve any tax increase or new tax by secret ballot, the chances of taxes being raised or new ones imposed will be extremely low. Only demonstrable emergencies or clear opportunities to improve the government's infrastructure would have much of chance of persuading voters.

This is not a new or untested idea. Colorado passed legislation in 1992 mandating that all levels of government, state, government, municipal, school district, and other bodies with taxing authority may not raise taxes without first getting the approval of the voters through a referendum. Ohio has a requirement that no real estate parcel can be taxed at more than 10 mills of its assessed value without a voter referendum approval. This limit applies to the combined rates of all taxing bodies having jurisdiction over a parcel.

California recently adopted legislation that requires that voters must approve by a two-thirds majority any property tax increase for any taxing body. In Florida, over 900,000 signatures have been collected on a petition calling for the adoption of legislation based on the Colorado model that requires a referendum for any tax increase.

It is noteworthy that since Colorado passed the tax referendum legislation, it has been ranked as the having the best business climate in the country three straight years.

VI. Return surplus fund balances to taxpayers.

In North Carolina, the legislature recently enacted a bill to provide governmental accountability and protection to the taxpayers. Among its provisions is a requirement that revenues in excess of a preset general fund expenditure limit be placed in a special trust fund. Appropriations from that fund would require a two-thirds majority of the legislature or a fiscal emergency. At the end of the fiscal year any funds in the special trust in excess of 5 percent of the general fund appropriation would be returned to taxpayers as tax cuts or refunds. To make this provision effective, a strict adherence to general fund appropriations, once approved, would have to be enforced.

The major salutary effect of this provision is that it prevents political gamesmanship with the surplus. The surplus would not be allowed to build, removing purchasing power from the private sector, and it would reduce the temptation to accrue surpluses in order to be able to make tax cuts in election years.

Large and sustained budget surpluses and a buildup of excess funds are not good public policy. In this regard, the goal of government would be to maintain adequate reserves to counter emergencies and to meet rating agency guidelines.

VII. Fair treatment in tax assessment.

Taxpayers have the right to a guarantee of equitable treatment. For example, all real estate parcels must be appraised in a uniform, professional manner using best practices and carried out within a sufficiently short time frame to produce reasonably comparable market conditions for all appraisals.

There are very few things that arouse the anger of taxpayers faster than the thought that they are paying more than their fair share of taxes. In a situation where widespread inaccuracies and inequities occur, there is a strong likelihood of taxpayer dissatisfaction.

VIII. Access to information and full explanation of procedures in tax assessment and collecting.

While self-explanatory and obvious, taxpayers must have assurances that their government will make all necessary information regarding their assessment available for purposes of appeal. Moreover, they are guaranteed full explanations of procedure regarding assessments and collections.

References

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