



**Statement of Pete Sepp, Executive Vice President  
National Taxpayers Union  
To the Montgomery County Council  
Regarding Tax Proposals for the Fiscal Year 2011 Budget  
May 18, 2010**

President Floreen and Members of the Council, I am honored to be able to present these remarks on behalf of the National Taxpayers Union's 1,500+ members in Montgomery County and our 362,000 members nationwide. We commend the Council's efforts so far in crafting a budget that reflects a reality born not simply by the current economy, but by years of excessive expenditure growth. Nonetheless, we believe that further progress can and should be made. Accordingly, I urge you to reject the tax increases contained in the budget plan now before you, and work instead for additional spending restraint.

As a Silver Spring resident, I can personally attest to the apprehension many County residents and small business owners feel over the prospect of tax hikes. And while public officials are to be commended for avoiding increases in property and other taxes, the proposals currently under consideration carry numerous problems of their own.

For example, Montgomery County consumers already pay one of the highest combined tax rates for cellular phone service in the nation, including a monthly \$2.00 per line charge, a six percent state sales tax, and 911 fees. The proposed \$1 boost in the charge, which adds up to a near-\$12 million tax hike in the coming fiscal year, will make this disparity even worse. The total tax load will exceed 20 percent on an average bill, three times as heavy as a Northern Virginia consumer must carry. Moreover, because the tax is levied per line, a family that buys a plan with multiple lines will pay more than an individual who buys a single-line plan. Many families, especially low-income families, rely on wireless service as their primary means of communication.

The proposed cellular phone tax hike will also harm small business owners and workers in Montgomery County. A growing number of these Marylanders, from bakers to contractors, use cellular phone service to enhance communication with customers, complete more sales, and improve their logistical operations. If Montgomery County raises its tax on cellular phone service, the businesses that use wireless will be forced to seek out phone service that costs less or drop service altogether. Similar effects could occur if the Council adopts higher energy taxes. In these times of economic uncertainty and deficits, Montgomery County should not give businesses an incentive to spend their dollars elsewhere or not at all.

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It may be true that Montgomery County offers other features that may attract economic activity, but no jurisdiction – not even one with a large base of resilient government jobs – can ask more from its taxpayers without limit. Tax hikes should never be the first resort to meet budget shortfalls, but in this slow economy, they are fiscally suicidal. When the public sector takes more, consumers and businesses have less to pay their bills and stay afloat – and less ability to contribute income and property taxes.

These competitiveness considerations are not academic – they are quantifiable. According to an analysis from the Washington, DC government’s Office of Finance and Revenue conducted in late 2009, a family of three shoulders a heavier overall tax burden in Montgomery County across all five income categories studied (ranging from a low of \$25,000 to a high of \$150,000) than in the District of Columbia. The County was in a virtual tie in most income scenarios with Prince George’s. Compared to the three northern Virginia areas of Alexandria, Arlington County, and Fairfax County, Montgomery County finished highest-taxed in every case except one (the \$25,000 level). Ironically, the new wireless taxes will hit this income group hardest, diminishing one of the few tax advantages the County may have. Among middle-class households, the difference in tax bills for Montgomery County approached or exceeded \$2,000 depending upon the jurisdiction to which it is compared.

This government has many alternatives it could implement instead of further burdening the people it serves. For example, Montgomery County is spending at least \$1 million per year on a language skills bonus for county workers, even if the skills are not used. The County must redouble its efforts to find savings by reevaluating programs, improving efficiency, and cutting waste. This also means exploring concepts such as Technical Auditing for infrastructure projects and Recovery Audit Contracting for benefit and grant programs. Finally, the County must confront the inevitable adjustments to be made in non-instructional education spending, including health benefits and other compensation.

County officials should be working to reverse, not accelerate, the economically destructive trend of boosting predatory taxes on their citizens. They can begin doing so by rejecting out of hand the tax increases on wireless service, energy, and other activities in the current budget.

At this moment in the County’s fiscal history, it is tempting to “call it a day,” pass a budget with tax increases, and make structural program changes at some other more convenient point in the future. Unfortunately, from the federal government down to the local level, that “convenient point” has been passed. The nation’s largest entitlement programs are or soon will be in the red, government employee compensation (especially in retirement) is unsustainable, and capital projects face major financing challenges.

Tax increases won’t resolve these problems. We stand ready to work with you in finding solutions that will.

I appreciate the opportunity to present these views.