

Democracy North Carolina

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SPECIAL-INTEREST PACS GUARD TAX LOOPHOLES

A new analysis shows that three dozen of North Carolina's biggest political action committees (PACs) donated \$7 million to state candidates and political parties in the last election – and now many of the groups are scrambling to make sure their interests, including tax breaks worth at least \$1 billion a year, are not harmed in the new budget being hammered out in Raleigh.

The list of top PACs includes groups of developers, attorneys, university patrons, doctors, auto dealers, state employees, teachers, and beer wholesalers, as well as executives with blue-chip firms like Progress Energy, Wachovia, Blue Cross, AT&T, and Nationwide Insurance.

The analysis by the watchdog group Democracy North Carolina shows that legislative winners in 2008 received 94 percent of the \$5.7 million the big PACs donated to all legislative candidates. The PACs also gave \$770,000 to gubernatorial and other statewide candidates, as well as \$590,000 to political party committees, much of which gets funneled into legislative races.

On September 16, 2008 the NC Realtors Association PAC sent 106 legislative candidates a total of \$169,500 in donations. The same day, the NC Telephone Cooperative's PAC sent \$66,800 to 75 legislators. The next day, the Blue Cross PAC sent \$42,200 to 45 candidates and two weeks later, Bank of America's PAC gave 84 legislative candidates \$118,250. And on and on it went.

But now the budget crisis is forcing elected leaders to make hard choices that affect big donors and pit one powerful lobby against another. Teachers are holding rallies against cuts in the education budget, and the NC Beer & Wine Wholesalers Association is running full-page ads against proposals to increase the tax on its products. Both groups have PACs that gave more than \$100,000 in direct contributions in 2008, plus at least another \$100,000 through affiliated groups and individuals.

“Legislators are being pulled from all sides and most say political donations have no influence on their decisions, which is good,” said Bob Hall, executive director of Democracy North Carolina. “In fact, both the House and Senate budgets eliminate several loopholes that benefit special interests and both cut thousands of teachers' jobs. The House version also adds a new tax on the very wealthy, despite opposition from powerful lobbies. It will be interesting to see how the final budget distributes the pain and how many old loopholes survive under fresh scrutiny.”

Based on the NC Department of Revenue analysis of tax breaks, Hall said the leading PACs have a vested interest in protecting more than \$1 billion worth of special provisions and loopholes placed in the state's tax code over the years. He said the PAC lineup provides a useful context for evaluating the budget debate.

● “Athletic Supporters”: A group of UNC-Chapel Hill boosters called Citizens for Higher Education (CHE) set a record for PAC donations to legislative candidates by giving \$479,000 to

this group during the 2008 election. It handed out at least \$3,000 to 80 legislators, including the maximum \$8,000 to 24 legislators. No PAC in history has thrown such large amounts to so many legislators. CHE supports a controversial tuition subsidy for out-of-state students, mostly athletes; the subsidy shifts costs to taxpayers that were formerly paid by athletic boosters. The House eliminated the subsidy, worth over \$12 million a year, but the Senate's budget did not.

- **Bankers:** Four banks are on the list of the top PACs: Bank of America (total donations - \$292,750), Wachovia (total - \$181,700), BB&T (\$135,250), and First Citizens (\$94,651). The House eliminated a tax break that once saved banks more than \$80 million a year. The loophole allows banks to lower their taxable income by deducting the expenses associated with investments that are tax exempt, a practice the federal government does not allow.

- **Beer/Wine:** While Gov. Beverly Perdue proposed increasing the tax on beer, wine and liquor, the House only focused on liquor. The NC Beer and Wine Wholesalers Association PAC gave a total of \$145,517 in 2008, and it has beaten back increases in beer taxes before. Many beer wholesalers are prominent individual donors – as are members of the next group.

- **Auto Dealers:** The NC Automobile Dealers Association PAC donated \$218,000 and can boast that none of the budgets raise the 3% tax limit on auto sales. A one percent increase in the motor vehicles use tax would generate more than \$150 million a year. Auto dealers also benefit from how the tax is calculated, because the value of a trade-in is deducted from the new vehicle sales price before figuring the tax. This provision lowers the vehicle tax by \$110 million a year.

- **Service Providers:** The new budget may require car mechanics and house painters to collect a sales tax on what they charge their customers. But, so far, attorneys, accountants, architects, and other service providers who are disproportionately used by the wealthy appear to be exempt from the discussion about which new services should be taxed. That's especially a windfall for members of the NC Academy of Trial Lawyers (now NC Advocates for Justice), which sponsors the PAC with the most political donations in NC. It gave a total of \$607,000 in the 2008 election, including \$308,000 to legislative candidates and a whopping \$251,500 to party committees.

- **The Well-Off:** On the other hand, wealthy lawyers would be captured by a House plan to add two new tax rates for individuals with taxable income (after deductions) above \$200,000 and above \$500,000. Other groups with wealthy members and big lobbies include the NC Medical Society (total - \$484,562), the NC Association of Realtors (total direct donations - \$290,000) and the NC Home Builders Association (total - \$324,200). Three PACs of anesthesiologists donated a total of \$283,000. The Senate has a different approach to achieve a more progressive income tax system, especially related to the state's highest earners; the resolution of the two approaches is one important area to watch in the budget negotiations.

- **Big Insurance:** Two insurance company PACs are among the state's largest – the Blue Cross & Blue Shield PAC (total - \$171,250) and Nationwide PAC (total - \$226,500). Budget proposals call for increasing the current regulatory fee on insurance firms, but other caps on the taxable portion of premiums collected by insurers may still save the companies more than \$150 million a year. The Senate may finally end an unusual tax credit on what insurance firms pay into guaranty funds to protect against their failure, which saves them \$20 million a year.

- **Big Tobacco** has lost some recent fights, but with the help of the R. J. Reynolds PAC (total - \$88,000) and numerous lobbyists, it defeated a provision in an early version of the House plan

to end a tax break worth \$12 million a year for cigarette manufacturers, and it has apparently convinced legislators not to go along with Gov. Beverly Perdue's proposal for a \$1 increase on the excise tax on a pack of cigarettes.

- **Boss Hog:** Thanks to the political clout of agribusiness, including the donations of the NC Farm Bureau PAC (total - \$222,150) and NC Pork Council PAC (total - \$187,000), agriculture gets all sorts of exemptions from land-use, environmental and other regulations, as well as a host of tax breaks. A proposal to reduce one of the oldest breaks – the \$80 cap on the sales tax paid on purchases of farm equipment and supplies – could generate over \$100 million in new revenue.

- **Utilities:** Agribusiness, manufacturers, commercial businesses, and residential customers all get a break on the sales tax on electricity. State law limits the sales tax on electricity to between 1.8% and 3%, depending on the customer; lifting this cap would generate \$130 million a year in new revenue and might reduce energy consumption. Progress Energy PAC (total - \$301,500) and Duke Energy PAC (total - \$278,000) are among the top 10 PACs in the state year after year.

- **Telephone companies:** AT&T (PAC total - \$140,500) and Embarq Corp. (PAC total - \$151,250) are two of the firms that benefit from a tax break on the purchases of telephone equipment that costs the state an estimated \$31 million a year in lost revenue.

- **Hospitals:** One of the more surprising big PACs is financed by the executives and health practitioners affiliated with the NC Hospital Association, many of whom are also prolific individual donors to candidates. The PAC donated a total of \$301,250 in 2008. A Senate proposal to limit the current refund on sales taxes paid by large non-profits, which would mostly affect hospitals, is being reconsidered, much to delight of this lobby group. Hospitals and doctors also are worried about reductions in the state's reimbursement rate for Medicaid patients.

- **Mega Corporations:** The big banks, telephone giants, drug makers like Glaxo, tobacco firms, and other multi-state corporations might have to pay an additional \$45 million to \$100 million in taxes to North Carolina if they were forced to report the income of their various subsidiaries through a method called "combined reporting." But the NC Chamber and other groups are fighting the change to combined reporting, which the House adopted but Senate leaders oppose. Many multi-state corporations also benefit from the notorious "cookie factory tax break," a change adopted by the General Assembly years ago to woo a Nabisco factory that still didn't come; the change allows multi-state companies to reduce the portion of their income taxable in North Carolina and it now produces a \$58 million annual tax loss for the state.

- **Lost Jobs:** While most of these PACs are working against a tax increase, two powerful groups want more revenue to support their members' jobs. The State Employees Association of NC PAC donated \$210,300 in 2008 and the NC Education Association PAC made direct donations of \$272,181; each group is augmented by a national affiliate that spent even more money in North Carolina's 2008 election, including independent expenditures.

"The test of the balanced budget this year will be how fairly it distributes the pain of cuts and how it closes the loopholes built into the tax system over decades by special-interest lobbies," said Hall. "While some may advocate their narrow interest, responsible campaign donors and citizens alike should take a broader view and even put forward their own budget plans." One worth consideration, from the nonpartisan NC Budget & Tax Center, melds the House and Senate plans; it can be reviewed at ncjustice.com.

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36 LEADING PACS IN 2008 ELECTION – DONATIONS ONLY*

PAC SPONSOR	Donations to Legislative Candidates	Donations to Statewide Candidates	Donations to Party Committees	TOTAL Donations
NC ACADEMY OF TRIAL LAWYERS PAC	\$308,500	\$47,000	\$251,500	\$607,000
NC MEDICAL SOCIETY STATE & FED PAC	347,562	120,000	17,000	484,562
CITIZENS FOR HIGHER EDUCATION PAC	479,000	0	4,000	483,000
NC HOME BUILDERS ASSN PAC	276,650	34,000	13,550	324,200
PROGRESS ENERGY PAC	235,500	48,000	18,000	301,500
NC HOSPITAL ASSN STATE & FEDERAL PAC	291,250	8,000	2,000	301,250
BANK OF AMERICA STATE & FEDERAL PAC	226,250	34,000	32,500	292,750
NC REALTORS ASSN PAC	258,500	23,000	8,500	290,000
DUKE ENERGY PAC	240,000	35,000	3,000	278,000
NC ASSN OF EDUCATORS PAC	174,831	25,500	71,850	272,181
NATIONWIDE CAROLINA PAC	206,500	15,000	5,000	226,500
NC FARM BUREAU FEDERATION PAC	178,850	33,750	9,550	222,150
NC AUTO DEALERS ASSN PAC	186,500	23,000	8,500	218,000
STATE EMPLOYEES ASSN OF NC/SEANC PAC	178,800	24,000	7,500	210,300
NC PORK COUNCIL PAC	163,500	4,000	19,500	187,000
WACHOVIA CORPORATION PAC	133,200	36,500	12,000	181,700
BLUE CROSS & BLUE SHIELD OF NC PAC	146,750	18,500	6,000	171,250
EMBARQ CORP PAC	130,750	11,000	9,500	151,250
NC BEER & WINE WHOLESALERS ASSN PAC	111,524	7,993	26,000	145,517
AT&T NC PAC	121,000	10,000	9,500	140,500
NC ASSN OF ELECTRIC COOPS PAC	125,850	13,000	0	138,850
NC DENTAL SOCIETY PAC	129,450	1,750	5,600	136,800
BRANCH BANKING & TRUST PAC	100,750	27,000	7,500	135,250
SOUTHEAST ANESTHESIA ASSOCIATES PAC	108,000	24,000	500	132,500
TIME WARNER CABLE-NC PAC	79,100	23,750	5,925	108,775
UNIVERSITY DEVELOPMENT COALITION	91,000	9,500	0	100,500
CAROLINK/NC TELEPHONE COOP. PAC	83,400	12,000	0	95,400
FIRST CITIZENS BANCSHARES PAC	69,650	18,251	6,750	94,651
R J REYNOLDS PAC	77,000	11,000	0	88,000
MCGUIREWOODS PAC	48,366	15,225	18,300	81,891
CRITICAL HEALTH SYSTEMS OF NC PAC	64,000	17,000	0	81,000
PETROLEUM & CONVEN. MARKETERS PAC	51,950	20,500	3,250	75,700
FRIENDS OF FORESTRY PAC	69,000	3,500	0	72,500
LILLIAN'S LIST OF NC	67,900	0	1,640	69,540
WILMINGTON ANESTHESIOLOGISTS PAC	60,500	9,000	0	69,500
CAROLINA ASPHALT PAVEMENT ASSN PAC	57,750	6,500	5,250	69,500
TOTAL FOR 36 PACS	\$5,679,084	\$770,218	\$589,665	\$7,038,967

* Because the State Board of Elections has not processed all reports for 2008, other PACs may be larger, ranked by direct donations to candidates and parties. These figures do not include independent or electioneering expenditures.