



June 7, 2010

Dear Members of the Pennsylvania General Assembly,

With the budget deadline fast approaching, I write today in strong opposition to the host of tax increases that have been proposed by Governor Rendell and some legislators as a means to addressing the state's more than \$1 billion deficit. The tax increases proposed on energy production, tobacco, and 74 other goods and services would only serve to impede economic recovery and kill jobs at a time when Pennsylvania businesses and employers are still struggling in the current downturn.

Regarding the tax hikes proposed on tobacco and natural gas production – while it may be politically expedient to target these industries with higher taxes, the fact remains that businesses don't pay taxes, people do. Businesses are simply legal entities which collect taxes from real live human beings, typically through reduced wages and higher costs of goods and services.

Governor Rendell's proposed severance tax would be paid for by all Pennsylvania residents in the form of higher utility bills, a higher cost of living, and reduced job opportunities. Studies show that every dollar spent by the natural gas industry in the state generates \$1.90 of economic output, meaning that the proposed severance tax could reduce economic output from natural gas production in the state by as much as \$300 million next year. A new severance tax would also adversely affect workers and retirees, most of whom have a stake in energy companies through a 401K, mutual fund, or other investment vehicle.

A tax hike on tobacco would also do further damage to the state's fiscal situation. Tobacco has proven itself to be a dubious and declining source of tax revenue. As a result, collection estimates often fail to be met. As it just guarantees future budget holes, raising taxes on a declining revenue source like tobacco to fund new spending is a recipe for more tax hikes in years to come. In fact, of the 57 tobacco tax increases enacted by states between 2003 and 2008, only 16 met initial revenue projections. Additionally, despite what proponents claim, the proposed tobacco tax increases would take a toll on small tobacco farms, not large international conglomerates. According to USDA data, the average tobacco farm in Pennsylvania is a mere 6.1 acres. Many of the small farms that would be adversely affected are in Amish and Mennonite communities.

Furthermore, the proposed excise tax of 30% on the retail price of cigars and smokeless tobacco products, along with the push for a 30 cent-per-pack cigarette tax hike would be a major job killer. According to the Pennsylvania State Tax Analysis Modeling Program (PA-STAMP), this proposal would mean 3,000 fewer private sector jobs in PA next year. Worse, this tax increase would be borne by those Pennsylvanians least able to afford it. On average, smokers, whose median income is a little more than \$36,000, make about 30% less than non-smokers.

Congress has passed \$670 billion in higher taxes in just the past year. It is imperative that Pennsylvania lawmakers not pile on with more job-killing tax increases at the state level. For this and the other aforementioned reasons, I urge that you stand up for Pennsylvania taxpayers by crafting a budget that does not further raise taxes in what is already a costly state in which to live and do business. If you have any questions, please contact ATR's Director of State Affairs, Patrick Gleason (202) 785-0266 or pgleason@atr.org.

Onward,

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