



July 14, 2009

Dear Members of the Pennsylvania State Legislature,

I write today to express strong opposition to the cadre of tax increases that have been proposed in Pennsylvania. As you know, Governor Rendell is traveling the state pushing tax increases on tobacco, energy, and even income. Raising taxes now will only serve to exacerbate and prolong the current economic downturn while siphoning even more money from workers and families at the time when they need it most.

Despite what the Governor may claim, Pennsylvanians do have a high income tax burden and cannot afford to pay more. Pennsylvanians currently see 10.2% of their income consumed by state and local taxes alone, amounting to a state and local tax burden higher than that of 39 other states. This high burden contributes to an overall high cost of government in the Keystone State. In fact, Pennsylvania taxpayers worked 195 days last year just to pay for the cost of their government.

A severance tax on natural gas extraction and a tax hike on tobacco, while more politically popular than an income tax hike, will have an equally onerous impact on taxpayers and the economy.

A severance tax will cause Pennsylvanians to face higher utility bills and a higher cost of living in general. Make no mistake, the burden of a severance tax hike will be borne by all Pennsylvania residents and will reduce jobs. 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. When West Virginia imposed a similar severance tax, energy companies fled to Pennsylvania. Lawmakers should keep in mind that neighboring New York has no severance tax. Rather than create a disincentive on natural gas exploration and production, the state could simultaneously generate more revenue and create jobs by leasing more state land for exploration and production.

A tax hike on tobacco should also be a non-starter for lawmakers. Tobacco has proven itself to be a dubious and declining source of revenue. Raising taxes on a declining revenue source like tobacco to fund new spending is a recipe for more tax hikes in years to come. As tax revenues decrease and new spending commitments mount, legislators will be forced to raise taxes in the coming years for additional revenue. When combined with the new federal cigarette tax, the revenue from an increased state tobacco tax will decline even faster than projected. Furthermore, a tax increase on tobacco would be felt predominantly by those least able to afford it. On average, smokers, whose median income is a little more than \$36,000, make about 30 percent less than non-smokers. The state's spending priorities should be funded through the current budget and existing resources, not on the backs of a small and declining minority of taxpayers.

There is ample evidence that cutting spending, as opposed to raising taxes, is the most economically preferable method to closing budget deficits. The Federal Reserve Bank of San Francisco recently published an article summarizing research on economic multipliers. It turns out that a dollar of government spending results in 70 cents of job-creating activity after two years. A dollar in tax cuts results in \$1.30 to \$3 of job-creating activity after two years. Put another way, a \$1 cut in spending reduces job-creating activity by 70 cents. A \$1 increase in taxes cuts job-creating activity by as much as \$3. Tax increases at this time will only exacerbate the hemorrhaging of jobs and will, in fact, prolong the current downturn. Recent analysis supports

722 12th Street N.W.

Fourth Floor

Washington, D.C.

20005

T:(202)785-0266

F:(202)785-0261

www.atr.org



AMERICANS *for* TAX REFORM

this. The non-partisan Beacon Hill Institute concludes that Rendell's income tax increase alone will result in the elimination of 24,000 jobs.

Families and employers all over the state making tough decisions to prioritize and live within reduced means. Lawmakers must do likewise. As you continue to weigh options to rectify the state's overspending problem, I urge you to reject any proposal that raises Pennsylvania's already high tax burden. If you have any questions, please contact ATR's State Affairs Manager, Patrick Gleason (202) 785-0266 or pgleason@atr.org.

Onward,

Grover Norquist

722 12th Street N.W.

Fourth Floor

Washington, D.C.

20005

T: (202) 785-0266

F: (202) 785-0261

www.atr.org