



April 22, 2008

## **An Open Letter to the Alabama Legislature: Don't Punish Your Constituents with a New Energy Tax!**

Dear Legislator:

On behalf of the nonpartisan National Taxpayers Union (NTU), which has 362,000 members nationwide and nearly 4,000 members in Alabama, I urge you to reject proposals from Governor Bob Riley and others seeking a punitive tax hike of roughly \$200 million over the next six years on energy companies. This scheme, introduced in the Legislature as HB 796, amounts to little more than budgetary blackmail that will ultimately hurt every resident of the state of Alabama.

As you know, a recent state court ruling held that energy companies operating off the state's shores were entitled to \$63 million in refunds of overpaid taxes. Yet, the Legislature had already accounted for that money to fill out next year's budget.

That does not mean, however, that elected officials have no option but to enact a tax hike. During the early part of Governor Riley's tenure, Alabama lawmakers enacted budgets that boosted per-capita spending by double digits. Unfortunately, there seems to be little discussion today in Montgomery to restrain expenditures. Instead, many officials seem intent on hiking taxes by the amount of the energy companies' refund (and more in the future), in effect punishing the firms for winning their lawsuit. Arbitrary and capricious tax policy like this should not be acceptable in a state governed by the rule of law.

Though some portray tax hikes aimed at prosperous multi-national companies as painless, basic economics tells us that all taxes are ultimately borne by everyday consumers. Higher taxes mean less investment and fewer jobs generated by offshore energy production. Alabamans would pay higher prices at the pump and in stores as energy companies' profits dwindled. Alabama retirees, whose pension funds are invested in energy stocks, could face shakier financial futures.

In 2006, liberal-leaning Californians were asked to approve a ballot measure imposing a tax on in-state oil companies to help fund alternative energy research. Although the legislation before you does not purport to steer revenues toward such programs, the rhetoric that HB 796's backers employ is strikingly similar to that of the California proposal's supporters: The "rich companies" making "huge profits" can certainly "afford" a tax increase with no harm to the state economy. Californians didn't buy this demagoguery, and rejected the plan 55 percent to 45 percent. Do elected officials really think that Alabamans will fall for these deceptive arguments?

Any attempt to target a tax hike, even toward politically convenient oil companies, will ultimately mean a one-two punch to middle-class pocketbooks already softened by a slowing economy. Alabama is one state, in particular, that ought to be wary of jabbing a thumb into the eye of the private sector that provides good jobs. According to research by the Tax Foundation, its business climate ranks as less appealing than neighboring Tennessee, Georgia, Florida, and Mississippi.

The Governor and Legislature must face reality: Increasing state taxes of any kind, especially at a time of economic uncertainty, amounts to fiscal and political folly. NTU hopes you will recognize these facts by rejecting HB 796 and embracing spending restraint to bring the budget into balance.

Sincerely,

Pete Sepp  
Vice President for Policy and Communications