National Taxpayers Union

September 15, 2009

Pennsylvania Budget Compromise a Raw Deal for Taxpayers

Dear Legislator:

To the National Taxpayers Union's 17,200 Pennsylvania members, the proposed budget deal between Senate and House leadership is, on balance, unacceptable. Some elements of the plan are commendable, such as the rejection of Gov. Rendell's job-killing income tax hike and the expansion of leases for natural gas drilling. Nonetheless, this reckless spending plan would hammer Pennsylvania's business community and ignore fundamental problems, thereby guaranteeing that the hammer will fall on Pennsylvanians again in the near future.

This budget deal represents Senate Republicans' abdication of the mantle of fiscal responsibility. They took the lead this summer in passing SB 850, a budget bill with no tax increases, no use of rainy day funds, and a net spending cut. After Gov. Rendell's line-item veto, it was back to the drawing board – and the specifics of the new package are troubling.

The 25-cent-per-pack increase in the excise tax on cigarettes is misguided and foolish. It disproportionately affects the very same low-income families who are finding it toughest to weather the current economic climate. Smokers are more likely to be poor, and the cost of cigarettes consumes a larger portion of their household income than it does of those earning the median income. This tax hike will also drive business out of state, as it will exacerbate the cost disparity of cigarettes between Pennsylvania and states like Ohio and West Virginia (and at the same time draw even with Delaware). And while Gov. Rendell is fond of decrying the use of "one-time revenue sources," it is important to note that cigarette tax increases fit that description. They rarely yield the projected revenue ($97 million in this case), leading to further deficits in the future. Between 2003 and 2007, only 16 of 57 state cigarette tax increases raised as much revenue as promised. That doesn't bode well for Pennsylvania.

The budget deal reflects an intent to punish the business community a second time, by "delaying" the phase-out of the Capital Stock and Franchise Tax and thereby swelling the Commonwealth's coffers by $374 million. Pennsylvania already boasts one of the harshest business climates in the country, with the 5th-worst Economic Performance Rank from the American Legislative Exchange Council. The state's rating will surely drop in 2010 if more businesses are chased out of the state by politicians in Harrisburg. This "delayed phase-out" is a tax increase, period. Moreover, it is not likely to be as "temporary" as portrayed.

Perhaps most disconcerting is the increase in spending. Elected officials' attempts to retroactively boost last year's spending number to $28.1 billion notwithstanding, NTU's Pennsylvania members still consider the current $27.9 billion budget deal an unsustainable increase in government outlays. If passed, it will contribute to government growth of more than double the rate of inflation under Gov. Rendell, according to the Commonwealth Foundation. Furthermore, it will ensure that Pennsylvania faces the same problems in coming years.

Gov. Rendell opposes the budget deal, albeit for the wrong reasons. The Legislature must oppose it for the right ones: more taxes, more spending, more budgetary uncertainty, business as usual in the Keystone State, and of course calamity as usual for Pennsylvania families. I urge you to reject any budget agreement that includes higher taxes or more spending.

Sincerely,

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State Government Affairs Manager

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