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Electric Generator Taxes – An Expensive Burden on Business

Legislators face hard policy choices in today's economic climate of increasing state budget deficits and declining tax receipts. How should a state tackle its budget gaps while mitigating the impact on citizens? Unfortunately some have begun to consider taxing electric generators as a policy option. This is not a smart policy choice.

Generator Taxes Increase Consumer Costs

An electric generator – like any manufacturer of any product – incorporates all the costs of making a product into the final sale for that product. Simple economics tells us that if the generator's cost of production increases, the cost of its product will increase, and the ultimate cost to all consumers will increase. In addition, the increased costs can make the plant less competitive in the marketplace. The less a plant runs, and the more a plant owner must absorb new costs out of its own pocket, the harder it becomes to cover costs. As revenues decrease, less money is available to maintain jobs in the state.

An Anti-Business Message

Adopting a new cost of doing business jeopardizes all potential investment and the resultant jobs by creating market uncertainty and sending the message that a state is not a good place to do business. In a state that arbitrarily singles out electric generators as a target of a new tax, all businesses must wonder if they will be next. With an anti-business reputation, it becomes even harder to attract new development – of any kind – to a state.

Downward Tax Revenue Spiral

The amount of generation produced by an electric plant is not predictable, and depends upon factors such as weather, customer demand and necessary maintenance. Of course, the most important factor in plant operations is cost competitiveness. As plants incorporate the new cost of this tax into their prices they will be less competitive in the regional marketplace and not operate as often. The less a plant runs, the less generation taxes it will pay, the less income tax it will pay due to its lower profitability, and the less property tax it will pay due to its lower valuation. These factors make it impossible to predict the amount of revenue from a generator tax, making this an unreliable policy tool.

Conclusion

Addressing today's economic challenges is not an enviable task. Legislators must rely upon caution and prudence in adopting any new business tax. However, especially during this tenuous economic recovery, imposing a new business tax creates a race to the bottom. It sends an anti-business message at the exact time that states need to retain and attract new businesses. The true impacts of a tax like this one must be fully understood before making a costly policy choice.