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# **Commentary: The people pay when politicians tax 'business'**

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and James R. Harrigan

Philadelphia's most famous son, Benjamin Franklin, popularized the expression that "nothing can be said to be certain, except death and taxes." To that list you can add a third certainty: Politicians will consistently misunderstand or misrepresent how taxes actually work.

Look no further than Mayor Kenney's misguided soda tax for proof.

Like most politicians, Kenney looks at taxes the way a barfly looks at an ATM near closing time. He thinks he can simply draw money out of the economy whenever he wants without consequence. As any Economics 101 textbook would have explained, had he picked one up, the soda tax was destined to lead to higher soda prices.

Instead of looking in the mirror, though, Kenney blames the very merchants on whom he foisted the tax in the first place. "They are," he said, "gouging their customers."

The implication? Kenney believes that "business," not customers should pay the tax.

In pushing for more taxes, politicians either don't understand or won't admit that every tax - no matter on whom it is levied - is ultimately paid by people. Every tax on "business" gets passed on in the form of higher prices, lower wages, or lower investment return. Businesses don't pay taxes to the government; they collect taxes for the government. One way or another, people pay.

The mayor needn't look outside the commonwealth for proof.

Beginning in 2013, the legislature increased state gasoline taxes, which currently add 58 cents to the price of each gallon of gas sold in Pennsylvania. Proponents of the gas-tax hikes argued that the taxes would be levied on oil companies and wholesalers, not consumers. It apparently never occurred to the legislature that the oil companies and wholesalers would pass the tax along to the people.

Of the \$2.50 the average Pennsylvanian now pays for a gallon of gas, \$1.40 goes to the oil companies. But that's sales, not profit. Oil company profit margins are around 6 to 7 percent, meaning that oil companies actually pocket around 10 cents per gallon of gas, which is about what they made before the tax increases. The taxpayer, as usual, picks up the difference. On a gallon of gas, the commonwealth makes almost six times what the oil companies do.

In October, Gov. Wolf signed into law a 40 percent tax on vaping shops. Again, the levy was presented as a "tax on businesses." Politicians did some third-grade math and decided that they would get something approaching 40 percent of the total sales of vaping products in the form of new tax revenues. Instead, they destroyed a burgeoning local industry and now stand to collect nearly nothing.

In the end, Kenney's tax is nothing new. It is nothing smart either. Politicians love money, and they hate offending voters. They take every opportunity to tax "business," and when businesses simply pass the taxes along to consumers, workers, and investors as they must, those same politicians cry foul.

But here's the rub. There are only two possible explanations for any of this:

Politicians who claim that businesses will pay for new taxes are either too stupid to understand simple economics, or they are lying. And it really doesn't matter which of those things is true of Kenney. Either way, the citizens of Philadelphia deserve better.

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