

# The Journal Times

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## Opinion

### Wake from the (oil) pipe dream

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By The Journal Times Editorial Board

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It's easy to laugh at the silly ads now circulating in opposition to Gov. Jim Doyle's proposed windfall profits tax on oil companies — you know, the ads with fictional oil baron Ewell B. Payin and his cigar making the point that consumers will ultimately pay the tax. Joking aside, there is a very real point here, a point so valid that the oil profits tax should be dropped into the nearest dry well and forgotten.

It's pretty much an axiom in economics that taxes are never paid by the business which is taxed. The cost is passed on in whole or in part to people buying goods and services. Look at the pump next time you're refueling your car. Odds are you'll see a sticker telling you how much in state and federal taxes is included in the per-gallon price displayed on the pump.

Alaska does impose a tax on oil profits, but it's on every barrel drawn from state land minus the cost of production and distribution. The key distinction is that barrels of oil are easily measurable. Doyle, in the budget submitted to the Legislature, would impose a graduated tax on the first sale of motor fuel in the state except for biodiesel and the high-ethanol-content fuel known as E85. The first \$15 million in receipts would be tax-exempt. There would be a 0.5 percent tax on sums between that and \$75 million, a 1.5 percent tax from there to \$120 million, and 3 percent on anything greater. Oil companies would be forbidden from passing the tax on to consumers.

But how would the state know? Oil company executives are smart (if they weren't they wouldn't be where they are), and they'll find a way to camouflage the cost of the oil profits tax within the fuel price. Then the state's task would be to discern which penny represents a legitimate cost increase somewhere in the chain of production and which compensates for the windfall profits tax. More to the point: How do you prove that in court? You don't, at least not easily or quickly.

With or without tax recovery from consumers, the oil companies still have an advantage. They can offset state taxes on their federal taxes. And someone, someone not the oil companies, will make up for that lost federal revenue.

It's also important to note that the genesis of this whole argument was previous budget deficits which were closed by a raid on the state's supposedly segregated transportation fund. This has left transportation short on cash. In other words, if the state simply refrained from using the fund which shouldn't have been raided to begin with, we would not now be debating a tax of dubious effectiveness.

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