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HEADLINE: Cigarette sales sink under hefty tax

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BODY:

Albany Cigarette sales fell drastically since an additional 55-cent-per-pack excise tax made New York smokers the most heavily taxed in the nation, according to new state data.

Even as sales dropped, however, state reports show that revenues from the higher tax grew slightly to \$ 64.6 million in April, compared with \$ 63.1 million in April 1999. If that pace of growth continues, according to some observers, the state would run short of revenue it needs to finance a new health care program.

Carton sales in April, the second month the state collected a record \$ 11.10 in tax per carton, dropped a whopping 48.4 percent over the year before. Retailers sold 5.8 million cartons this April compared with 11.26 million in April 1999.

The 98 percent increase in the tax on cigarettes, which created a per-pack tax of \$ 1.11, took effect March 1. In March, sales dropped 29.6 percent compared with March 1999.

The tax increase was a controversial ingredient in the Health Care Reform Act negotiated late last year by leaders of the Legislature and Gov. George Pataki. The tobacco revenues are supposed to help pay for a new state health care program that would benefit up to 1 million more people needing medical insurance.

"This seems to follow the pattern in the rest of the country: Any time there is a major price hike there's a major drop off," said Blair Horner, legislative director for New York Public Interest Research Group, which supported the tax boost. By year's end, he said, after smokers adjust to the prices, the drop in sales won't be as large.

However, industry officials and lobbyists for retailers say they fear the trend will be constant as purchases from Indian smoke shops, the Internet and border states -- particularly Pennsylvania -- become habits. At the same time, smuggling is likely happening, said Mark Smith, a spokesman for Brown & Williamson tobacco company.

State Division of Budget spokesman Joseph Conway said the modest growth in

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collections is in line with forecasts. He also said it is too early to determine the trend.

The state expected an additional \$ 400 million in annual revenues from the extra 55 cents added to each pack of cigarettes sold. Before the increase, the state took in about \$ 680 million in revenues from a 56-cent excise tax.

According to James Calvin, president of the New York Association of Convenience Stores, the state needs to collect \$ 33 million more each month from the cigarette taxes to meet its objective. In April, additional revenues were only \$ 1.5 million higher than the year before.

"It's going to cost taxpayers of New York hundreds of millions of dollars to subsidize the health care programs that were supposed to be funded by this tax increase," he said. He said local governments are losing millions of dollars in sales tax and hundreds of jobs and businesses are threatened.

Assemblyman William Parment, D-Jamestown, said retailers in his district say they are losing business to Pennsylvania, where the tax rate is much more favorable to smokers, and to two Native American reservations where a carton is \$ 12 cheaper than off-reservation stores.

Meanwhile, Pataki has until midnight tonight to sign a bill also opposed by the tobacco industry. It would require manufacturers to market self-extinguishing cigarettes in New York. A spokesman for the governor said a decision is likely tonight. FACTS:DOWN IN SMOKE The March increase in cigarette tax has resulted in a significant increase in revenue but a major drop in sales.

Month	Tax revenue	Tax per carton	Cartons sold
January	\$ 51 million	\$ 5.609,125,000	
February	\$ 51 million	\$ 5.609,107,143	
March	\$ 57 million	\$ 11.105,144,144	
April	\$ 65 million	\$ 11.105,819,820	

Source: State Division of Budget and the New York Association of Convenience Stores

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