

Reducing Cigarette Excise Taxes Will Benefit the Economy of New York State

- **Senate Majority Leader Bruno's Business Tax Cut Plan goes a long way toward reducing and reforming many of the "Nickel and Dime Taxes" that retard business growth in New York State.**
- **In addition to Senator Bruno's proposal, it may be wise for the legislature to consider a 20 percent reduction in the cigarette excise tax from 56 cents per pack to 45 cents per pack.** This minimal tax reduction will benefit New York businesses, create additional jobs, and reduce many of the problems that New York is currently experiencing as a result of a high excise tax rate.
- **Senator Bruno's Proposal recognizes the dampening effect that high sales taxes have on New York's Retail businesses.** Reducing the currently high cigarette excise tax will create the same sort of economic stimulus as would the proposed reductions in the sales tax on clothing and the excise taxes on beer and liquor.
- **Studies have shown that excise tax sensitive businesses such as liquor stores, gas stations and convenience stores create more than 48 percent more jobs per outlet as do other retail establishments.**¹ According to a recent study released by the Federal Reserve

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¹ Lilley, William and DeFranco, Laurence, Impact of Retail Taxes on the Illinois-Indiana Border, (Federal Reserve Bank of Chicago: Chicago), July 17,

Bank of Chicago, businesses selling excise tax sensitive products such as gasoline, tobacco and beverage alcohol creates more retail jobs than do those selling other goods. A reduction in the cigarette excise tax could create a number of additional jobs in the State of New York.

- **Reducing the cigarette excise tax will encourage business growth in areas bordering low tax states such as Pennsylvania and New Jersey.** In addition, the lower tax rate will encourage business growth in areas bordering high tax states, by attracting consumers to New York businesses. Consumers from neighboring states who come to New York to take advantage of lower prices on excise-tax sensitive items can be expected to purchase other goods as well. As a result, retail activity and outlets could increase significantly in areas of New York that border states with substantially lower excise taxes.
- **Reducing the Cigarette Excise Tax will not dramatically impact New York State's tax base.** It will encourage consumers to purchase their cigarettes through legal channels rather than to expend time and resources to find low tax, or no tax sources. It will help businesses by reducing annoying "nickel and dime" taxation. In fact, according to Bob Shepard, Deputy Commissioner for the New York State Department of Taxation and Finance, the state lost over \$80 million in tobacco excise taxes in 1996 due to smuggling and other illegal sales.
- **Reducing the Cigarette excise tax by 11 cents per pack will encourage legal cigarette sales by adults who choose to smoke, while reducing opportunities for minors to purchase tobacco products.** Canada's experience with prohibitively high cigarette excise taxes illustrates high cigarette excise taxes can lead to increased criminal activity. From the early 1980s to the early 1990s Canadian federal cigarette excise taxes increased significantly. The contraband market rose in step, from a negligible level in the early 1980s to over 8.2 billion smuggled cigarettes in 1992 or 1 out of every 6 packs sold. Many of these smuggled cigarettes were sold to smokers through underground channels, not through retailers, who by law must now ask for identification from any customer who appears to be under 27 years of age.

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