

THE TAX TRAP

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With Clinton administration officials publicly advocating an increase of up to \$2.00/pack on the federal excise tax on cigarettes, everyone in the tobacco industry needs to remind their representatives in Congress of some cold, hard facts.

Between 1972 and 1991, excise taxes provided an ever smaller percentage of state revenue. The Federation of Tax Administrators reports that the excise tax share to state treasuries plummeted by more than forty percent, despite higher tax rates. As one official put it, "The golden goose of sin taxes is just about cooked."

Excise taxes are extremely unfair. They hit hardest at those least able to pay. Consumers in lower income groups end up paying a much greater percentage of their income in taxes than do those in higher tax brackets. Consequently, public policy experts who are concerned about tax fairness condemn excise taxes.

Smokers already pay more than their fair share of taxes. Smokers ante up over \$13-billion a year more in taxes than do nonsmokers. That includes the federal, state and in some cases local excise taxes as well as sales taxes.

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As a result of a 20-cent state tax hike this year, Washington smokers now have to pay a 54-cent per pack state cigarette tax in addition to the federal cigarette tax of 24-cents. This is almost double the average state cigarette tax of 28-cents per pack. The average two smoker Washington family has to pay nearly \$570 per year in Washington cigarette taxes, a discriminatory tax burden. On top of the 20-cent increase in 1993, the law also calls for additional increases in the coming years: 2.5-cents in 1994; a 17.5-cents in 1995; one-cent in 1996.

Even more challenging is the recent talk of "monster tobacco taxes" to fund health care reform. As noted, some have even advocated an increase of \$2.00/pack. A \$2.00/pack federal consumer tax increase would wreak havoc in Washington and across the country. It is estimated that cigarette sales could fall by 34% as a result of such a tax hike. Washington could lose more than 10,900 jobs in the sectors directly and indirectly related to the retailing and wholesaling of tobacco products. Finally, dwindling cigarette sales would also mean less state cigarette tax revenues. Washington cigarette tax revenue could drop by nearly \$65 million annually.

Nationally, more than 775,000 jobs are at risk from a \$2.00/pack federal increase. Please take a moment now to share your views on unfair federal cigarette tax increases with your Members of the U.S. House and Senate. They need to know your views on this critical matter.

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I am confident that our friends in the Washington State Association of Tobacco and Candy Distributors will continue their hard work to minimize any excise tax increases on tobacco products. We at The Tobacco Institute appreciate your support and wish you all the best for a successful meeting.

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