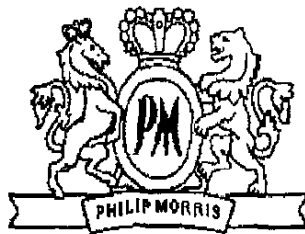


Talking Points
The Likely Economic Consequences From Raising New
York's Cigarette Excise Tax By \$0.55 Per Pack*



Philip Morris Management Corp.

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* All economic impact numbers were calculated from an econometric model prepared by the American Economics Group in October 1998 at the request of Philip Morris Management Corp.

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**The Likely Economic Consequences From Raising New York's Cigarette Excise
Tax By \$0.55 Per Pack**

- I. New York could lose 12,760 jobs attributable to the cigarette industry, a 17.49% decline^[1].
- II. The existing cigarette tax revenue base could fall by as much as 19.18% due to the decline in taxable cigarette sales. Much of this decline will come from a shift to non-taxed sources. In fact the GAO has stated that "Smuggling cigarettes from low- to high-tax states, or interstate smuggling, prominent in the 1970s, may now be a reemerging problem^[2]".
- III. Cigarette excise taxes are especially bad because not only is the tax a larger burden for poorer individuals, but the average smoker tends to have less income. A 1996 study by Citizens for Tax Justice^[3] found that the poorest 20 percent of American families pay, on average, 16.7 times more of their income toward excise taxes on gasoline, cigarettes, and beer than the richest 1 percent of American families.
- IV. The economic distortions created by the higher cigarette excise tax will not only impact adults who choose to smoke. These tax increases can be felt throughout the economy. For example, if smokers forgo cups of coffee to afford the higher cigarette excise tax, coffee vendors will be harmed.
- V. A good tax generates revenues that do not decline significantly over time or during economic downturns. Cigarette excise taxes do not fit this criterion^[4]. Cigarette excise tax revenues are sensitive to the overall consumer demand for cigarettes, which has been declining since the mid-1960's^[5] and are levied on a narrow (and shrinking) tax base.
- VI. It is apparent that new tax revenues are hardly necessary in the current environment. According to a recent State Policy Reports analysis, 49 states^[6] ended FY1998 with a budget surplus^[7]. In addition, tax reduction proposals across the 50 states over the past several years have totaled \$15 billion^[8].
- VII. Cigarette excise taxes are not broad based, are inequitable, are narrowly targeted over one specific type of economic activity (cigarette sales), and are unstable revenue sources. In short, cigarette excise taxes do not meet the sound financing mechanism criteria as defined by the National Conference of State Legislatures^[4].

¹ The cigarette industry is defined from growing the tobacco plant, to auctioning/warehousing, manufacturing, wholesale and retail of cigarettes. Direct jobs include both people working in these areas and their suppliers; indirect jobs include the economic benefits that arise because of the existence of the cigarette industry (what is commonly referred to as the *economic multiplier*).

² Including casual cross-border sales, illegal smuggling, and Native American sales. "Cigarette Smuggling: Information on Interstate and U.S.-Canadian Activity", Statement of Robert A. Robinson, Director, Food and Agriculture Issues, Resources, Community and Economic Development Division, *GAO Congressional Testimony*, May 4, 1998.

³ Ettliger, Michael et. al., "Who Pays? A Distributional Analysis of the Tax System in All 50 States", Citizens for Tax Justice and the Institute on Taxation & Economic Policy, June 1996.

⁴ See "Tax Policy Handbook For State Legislators", National Conference of State Legislatures, December 1997, p. 27-28. In this guidebook NCSL states that cigarette and tobacco taxes are not reliable (stable), are regressive, are not economically neutral, and are hidden. Such features make cigarette excise taxes an undesirable tax source.

⁵ For instance, although the 1996 federal cigarette tax is 300 percent higher than the 1980 level, the revenue raising effectiveness of the cigarette tax for the federal government has fallen by 27 percent (each penny of the federal tax raised \$32.6 billion in cigarette excise taxes in 1980 but only \$23.7 billion in 1996).

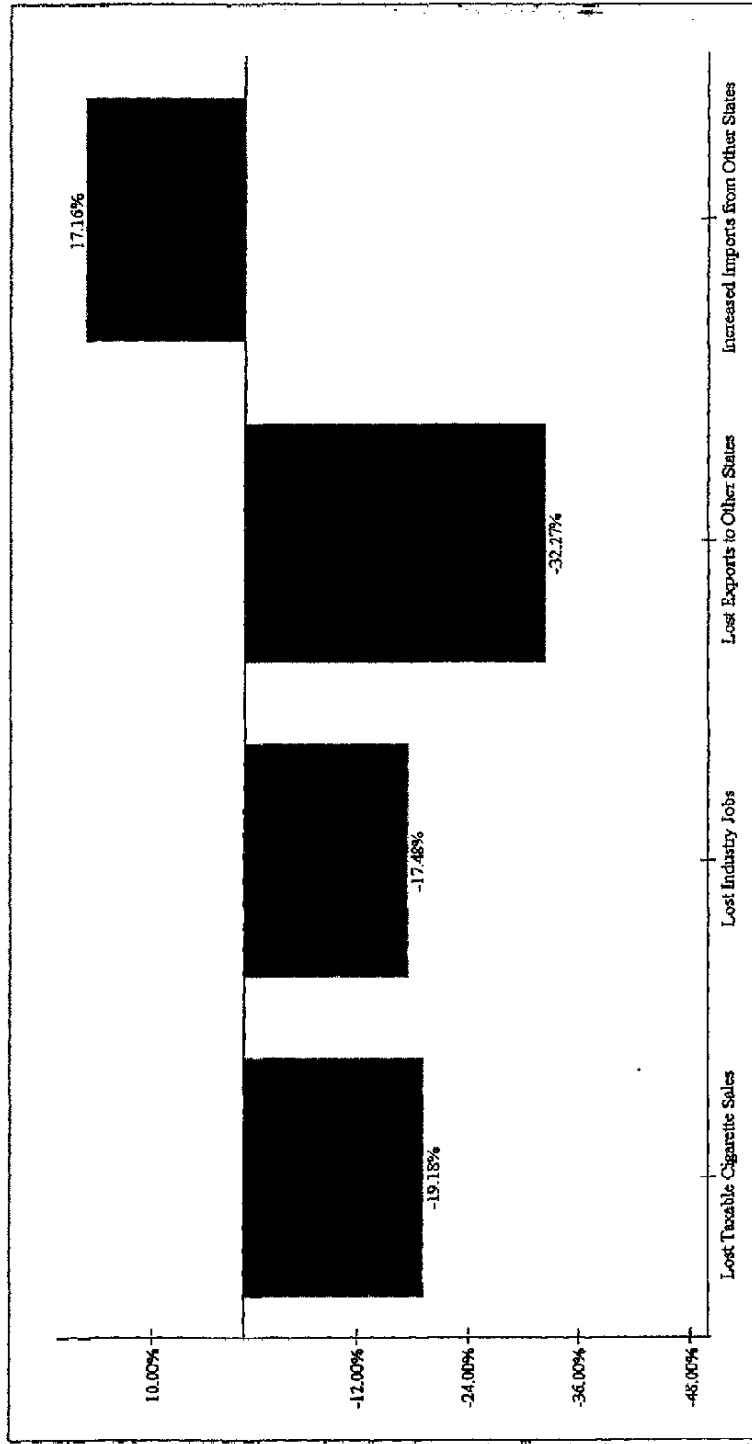
⁶ Hawaii is the exception.

⁷ See State Policy Reports, Volume 16, Issue 14, July 1998.

⁸ "The Fiscal Survey of States", National Governors' Association & National Association of State Budget Officers, May 1998.

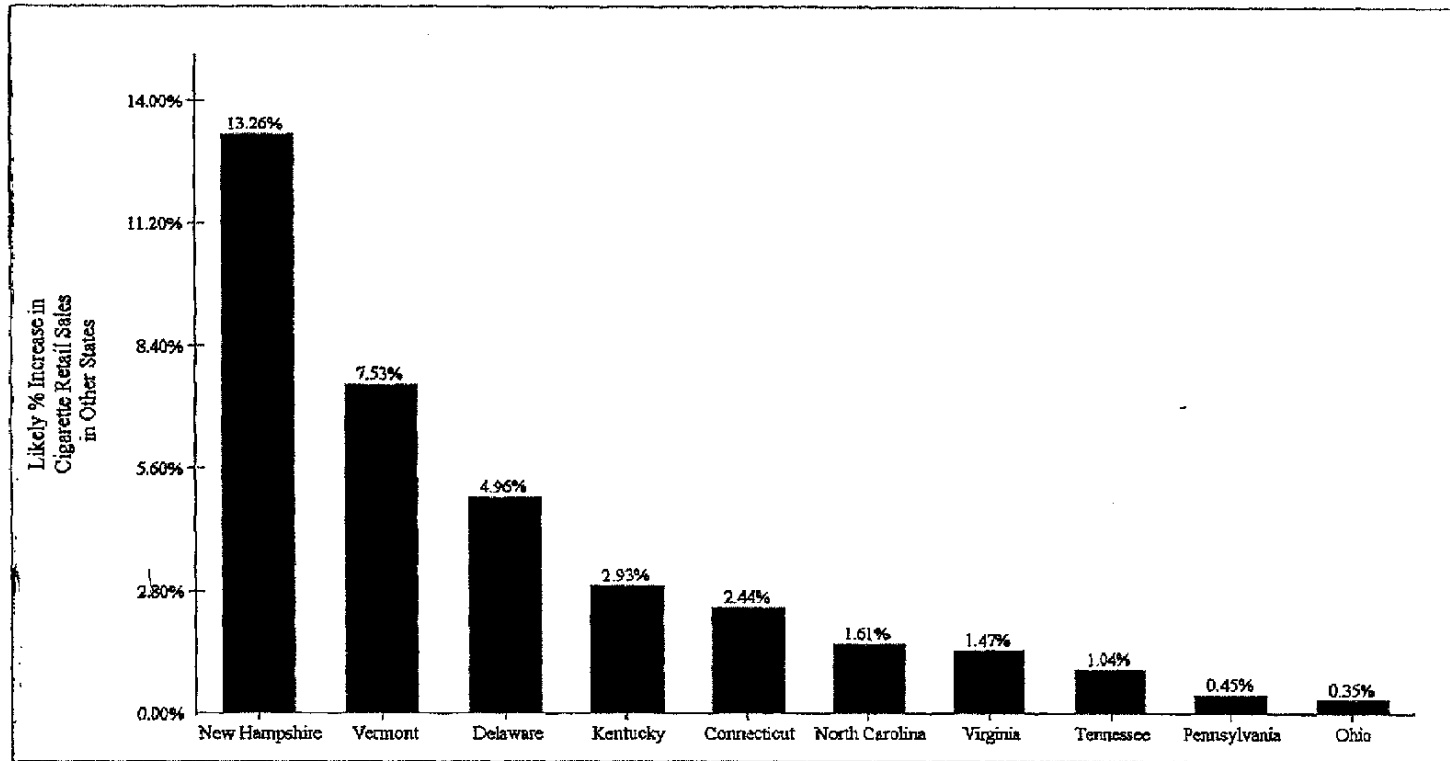
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**Estimated Potential Job and Sales Losses From a \$0.55 Increase in New York's Cigarette
Excise Tax**



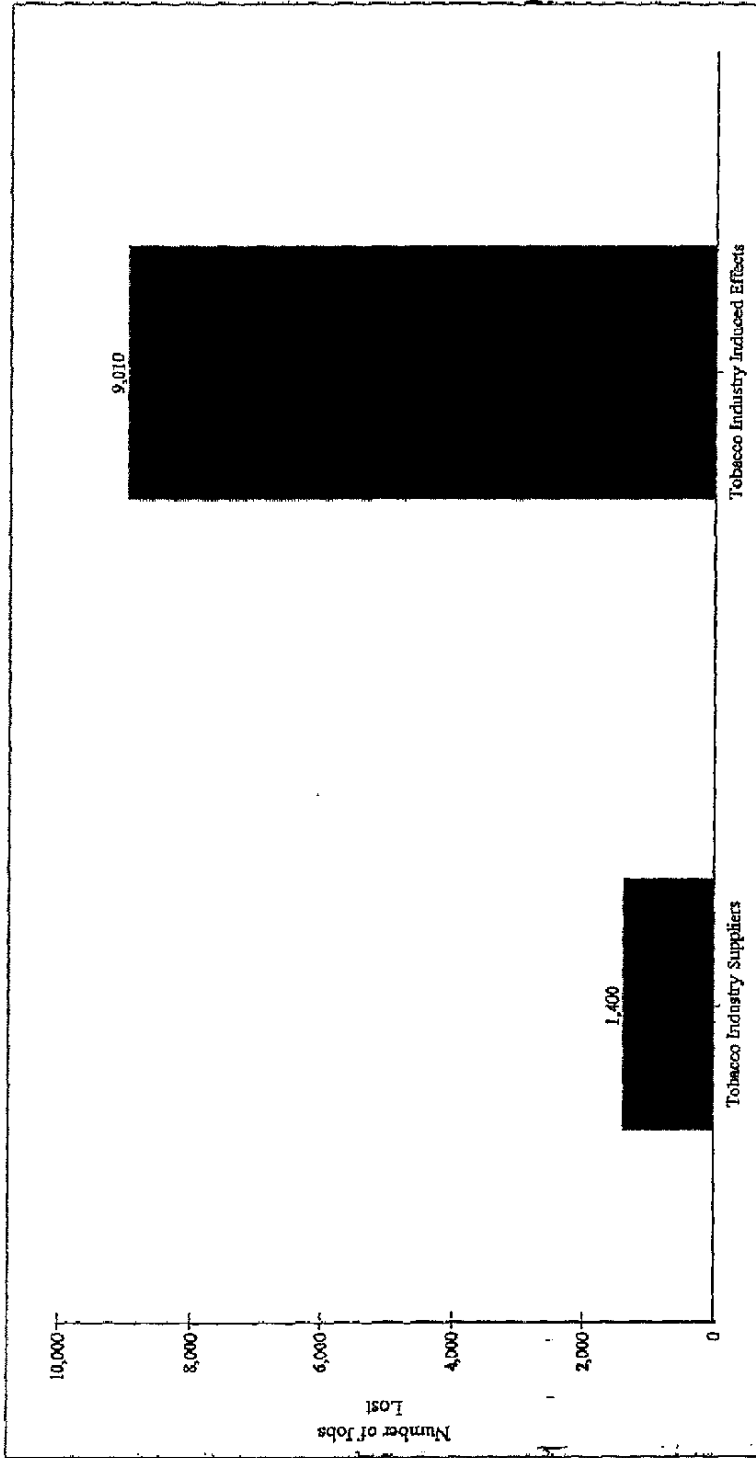
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**Estimated Potential Increased Cigarette Sales in Other States Following a \$0.55 Increase
in New York's Cigarette Excise Tax**



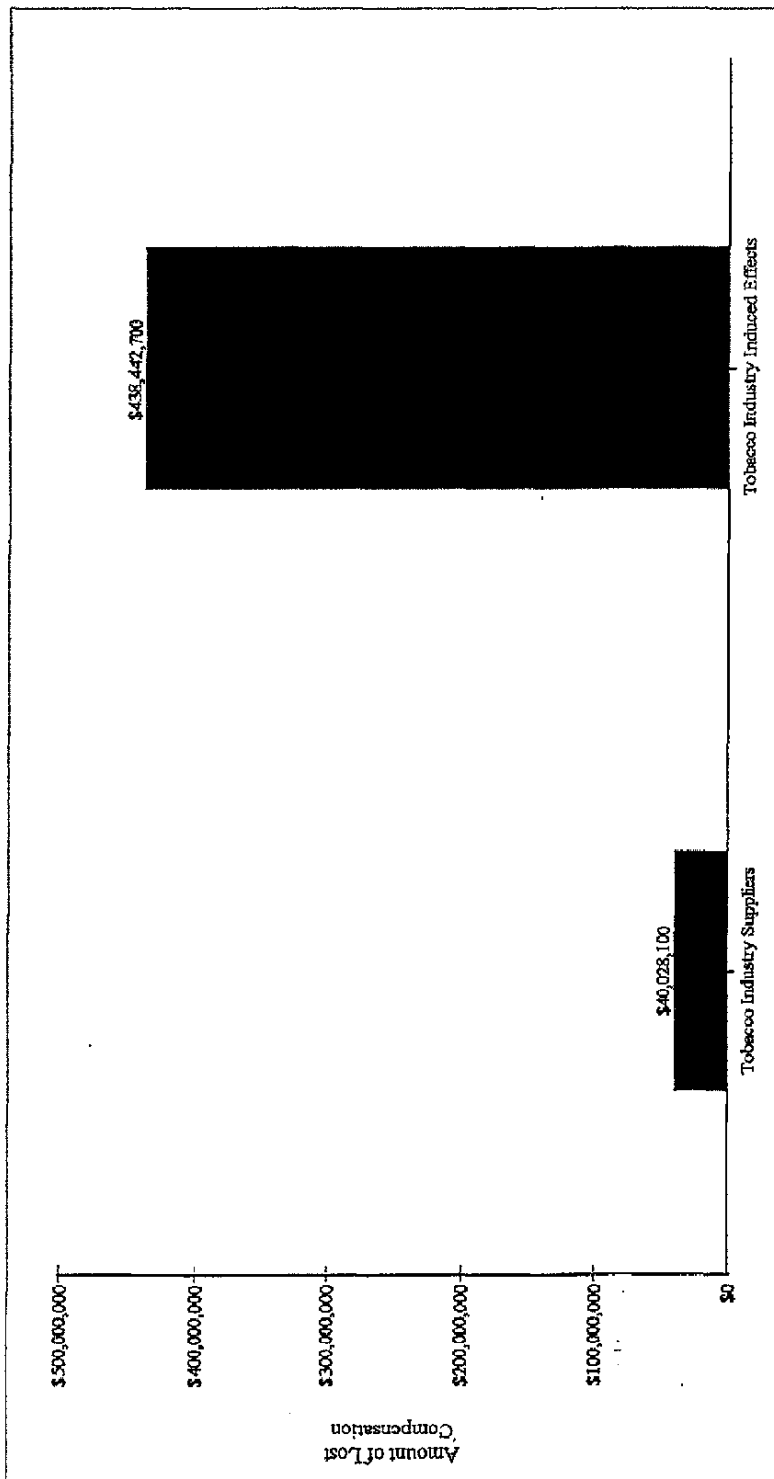
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**Estimated Potential Job Losses In Other Industries From a \$0.55 Increase in New York's
Cigarette Excise Tax**



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Estimated Potential Compensation Losses In Other Industries From a \$0.55 Increase in New York's Cigarette Excise Tax



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