

An Increase in the Cigarette Excise Tax Does Not Solve New York's Health Care Problems

The systemic problem in New York's health care system cannot be adequately addressed by a tax increase, of any kind. Furthermore, important government programs in New York (such as HCRA) deserve to be funded by a broad-based, stable revenue stream. Revenues from cigarette excise taxes, by contrast, are unstable and can decline significantly over time or during economic downturns.¹

I. **New York's Medicare and health system are plagued with waste, fraud and abuse. More money will not solve these problems.**

- State Comptroller Carl McCall has reported that the state Medicaid system has made over-payments of at least \$81.2 million for inappropriate claims, duplicate services provided by local clinics and inaccurate fee-for-service claims made by program participants.² More revenue will not fix these actual problems of waste, fraud, and abuse.
- A report by Citizens for a Sound Economy³ analyzed whether taxpayers are getting their money's worth with Medicaid. The report rated New York as "...the worst of the worst, absorbing a disproportionate share of the nation's Medicaid bill."

II. **Revenue from New York's cigarette excise tax is unstable and declines over time.**

- Taxable consumption of cigarettes in the U.S. peaked in 1981 at 31.7 billion packs. The 1998 taxable consumption of 22.8 billion packs is 28 percent lower than the 1981 level.
- In New York, the 1998 state cigarette excise tax is over three times greater than the 1981 level, but each penny of the tax in 1998 only raises 52 percent of the revenue it raised in 1981.
- Only people who choose to smoke pay cigarette excise taxes. This is a very narrow, and declining, tax base.
- Consumers may find other sources for their cigarettes in order to avoid excessively high cigarette excise taxes.

III. **Because cigarette excise taxes are a declining revenue source they are not a good funding mechanism for important government projects like health care.**

- The need to fund these projects will still exist in the future even if the revenue stream becomes inadequate to meet these needs. New York would

¹ 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. Also see "The Impact of Excise Taxes on Michigan, Indiana, and Ohio" Tax Research Analysis Center TRAC-00037, Nov. 1996 for a discussion of the negative effects from a cigarette excise tax.

² Letters to Department of Health., Reports dated August 6, 1999 99-F-18, August 4, 1999 99-F-7, July 28, 1999 99-F-2, and June 17, 1999 98-D-6

³ Citizens for a Sound Economy Foundation, "50 State Medicaid Report Card", 1997.

once again be faced with the tough decision of either cutting important government programs or raising taxes.

IV. An increase in New York's cigarette excise tax would increase the amount of sales made on Native American reservations.

- Cigarette sales on Native American reservations, which are exempt from state cigarette excise taxes, are currently around 11 percent of total New York State cigarette sales.⁴ A 25-cent increase in New York's state excise tax would further exacerbate the price differential between cigarettes sold at retail and those sold on reservations and could raise reservation sales to approximately 19 – 24 percent of total New York State cigarette sales.⁵ This would further decrease the revenue stream New York would raise from the cigarette excise tax.

V. A 25-cent increase in New York's cigarette excise tax will put the state at a competitive disadvantage in comparison to all of its bordering-states.

- Currently, New York's cigarette excise tax, at 56-cents per pack, ranks in the mid-range among its bordering states.⁶ A 25-cent tax increase to 81-cents per pack will make New York the highest taxed state among all of its neighbors. Significant sales losses from cross-border shopping would become a real possibility under this scenario. This would further decrease the revenue stream New York would raise from the cigarette excise tax.

⁴ Holloway, Milton. "Estimated State Revenue and Economic Impacts of Alternative Cigarette Tax Increases in Eight Selected States," Prepared for Philip Morris Management Corp., December 1998.

⁵ Ibid.

⁶ Excluding sales taxes, excise tax rates for neighboring states are as follows: Connecticut at 50-cents, Massachusetts at 76-cents, New Jersey at 80-cents, Pennsylvania at 31-cents, and Vermont at 44-cents.