

# PM USA Opposes an Increase in the Georgia Excise Tax on Cigarettes

The negative consequences from a \$1.00 increase in the Georgia excise tax on cigarettes are summarized below.

**The Economy:** The historic financial and economic crisis has led to exceptionally high levels of unemployment and eliminated trillions of dollars of wealth from the American economy. While it has also weakened state budgets across the nation, now is not the time to further strain households struggling to recover from this crisis with tax increases.

**Declining Revenue Source:** Total state tax-paid cigarette sales in the United States have declined by an average of 3.2% per year from 2000-2009.<sup>1</sup> In FY2009, tax-paid sales declined by 4.3%.<sup>2</sup> In Georgia, tax-paid cigarette sales have declined by 2.4% a year for the last ten years.<sup>3</sup> As a result, the Georgia government will realize less revenue from a cigarette tax over time and will need to find other means to fill the future gaps in funding.

**Illegal Activity:** An excise tax increase could contribute to increased incentives for smuggling and other contraband activities. This includes buying tobacco products at Native American territories or over the Internet, where taxes are not collected. As stated by John D'Angelo of the Bureau of Alcohol, Tobacco, Firearms and Explosives, "There is no doubt that there's a direct relationship between the increase in a state's tax and an increase in illegal trafficking."<sup>4</sup>

**Retailers:** Georgia retailers stand to lose from a cigarette excise tax increase. Cigarette sales are an important source of revenue for many of Georgia's 11,350 retailers.<sup>5</sup> According to the National Association of Convenience Stores, cigarette sales account for 32.9% of all in-store sales at convenience stores nationwide.<sup>6</sup>

**Unfair Tax Burden:** Since fiscal year 2000, federal and state governments have increased their cigarette excise tax 104 times. Because cigarette excise taxes are based on the product and not on the income level, they are regressive, impacting low-income adult smokers more than high-income adult smokers. Based on data from the Center for Disease Control, in Georgia more than 31.0% of adults earning less than \$15,000 are adult smokers; whereas only 15.4% of adults earning \$50,000 or more are adult smokers.<sup>7</sup> An increase in the cigarette excise tax sets up a situation where the lowest income households in Georgia end up paying for programs for households that earn an equal or higher income than they do.<sup>8</sup>

	Pack per Day Adult Smoker's Annual Revenue to Government	Government Burden on Lowest Income (\$15,000)	Government Burden on Median Income (\$48,369)	Government Burden on Highest Income (\$100,000)
<b>Current</b>	<b>\$814</b>	<b>5.4%</b>	<b>1.7%</b>	<b>0.8%</b>
<b>After Proposed Increase</b>	<b>\$1,179</b>	<b>7.9%</b>	<b>2.4%</b>	<b>1.2%</b>

**The unintended consequences of a tobacco excise tax increase can lead to short and long-term economic and fiscal problems for state governments and hurt legitimate cigarette retailers and wholesalers.**

<sup>1</sup> Bill Orzechowski & Rob Walker, *The Tax Burden on Tobacco*, vol. 44 (forthcoming February 2010); funded in part by Altria Client Services Inc.

<sup>2</sup> Bill Orzechowski & Rob Walker, *The Tax Burden on Tobacco*, vol. 44 (forthcoming February 2010); funded in part by Altria Client Services Inc.

<sup>3</sup> Bill Orzechowski & Rob Walker, *The Tax Burden on Tobacco*, vol. 44 (forthcoming February 2010); funded in part by Altria Client Services Inc.

<sup>4</sup> Maria Schultz, *Raised Tax on Smokes May Stoke Illicit Sales*, DETROIT NEWS, (July 21, 2002).

<sup>5</sup> Retail locations based on internal PMUSA data and rounded down to nearest 10.

<sup>6</sup> *State of the Industry: Convenience Store Totals, Trends & Averages*, NATIONAL ASSOCIATION OF CONVENIENCE STORES, 2008.

<sup>7</sup> *Behavioral Risk Factor Surveillance System; Prevalence and Trends Data; Nationwide (States and DC) – 2007 Tobacco Use*, U.S. Center for Disease Control, at <http://apps.nccd.cdc.gov/brfss/income.asp?cat=TU&yr=2007&qkey=4396&state=UB>.

<sup>8</sup> Methodology: estimated aggregate FET revenue increase of \$9.9 billion divided by a 2007 Aggregate Household income of \$7.9 trillion. Household income figures are from the 2007 Current Population Survey, U.S. Census Bureau, at [www.census.gov](http://www.census.gov). Income levels rounded from lowest 20% and highest 5% of single family households as provided by the US Census Bureau.

