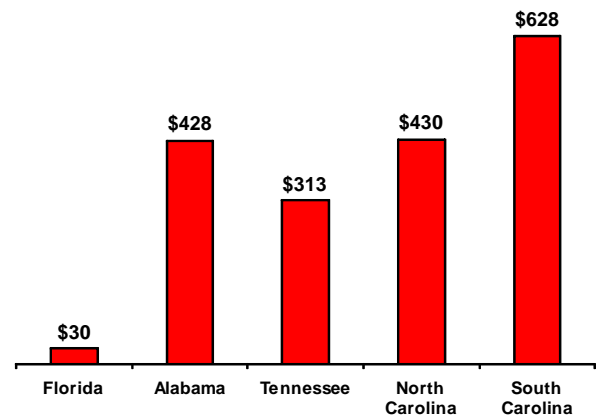


Cross-Border Purchasing Results in Government Revenue Loss

The proposed cigarette excise tax will cause packs of cigarettes to be more expensive in Georgia when compared to its neighbors. The current average price per pack in Georgia is \$4.70.¹ If a \$1.00 increase in the state cigarette excise tax were implemented, the average price would jump to \$5.88 per pack.² As demonstrated in the map and chart below, the resulting per pack price difference between Georgia and its neighbors will provide incentives for adult smokers to cross the border to buy cigarettes in states with lower excise taxes.

After a \$1.00 Increase: Estimated Annual Savings to a Pack a Day Adult Smoker if they Engage in Cross-Border Purchasing



When adult smokers act on these incentives, states collect less revenue than expected from a cigarette excise tax increase. For example, in July, 2007, Indiana raised its cigarette excise tax above that of surrounding states. After this increase, its revenues fell short of projections by 24%.³

Cross-border purchasing undermines the stability of this revenue source. Georgia should strongly consider this before the tax is increased to fund important government programs.

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

² The resulting price in Georgia has been estimated by adding the \$1.00 tax increase, the resulting increase in the sales tax per pack and including an estimated 18% trade margin. The estimated trade margin is based on *State of the Industry: Convenience Store Totals, Trends & Averages*, NATIONAL ASSOCIATION OF CONVENIENCE STORES, 2007.

³ Indiana raised its cigarette excise tax in July 2007. Actual revenues came in \$49.9 million below expectations. *State Cigarette Excise Tax Increases: A Comparison of Projected versus Actual Revenue FY 2003 -2007*, FISCAL PLANNING SERVICES, INC., (January 1, 2009); prepared for and funded by Altria Client Services Inc.

