

Georgia Retailers Stand to Lose from Cigarette Tax Increase

As the Georgia legislature considers increasing the cigarette excise tax by \$1.00 per pack, it should consider the effect on in-state retailers.

There are more than 11,350 retailers in Georgia that typically sell cigarettes.¹ Cigarette sales are an important revenue source for many of these retailers. For example, according to the National Association of Convenience Stores, cigarette sales account for 32.9% of all in-store sales at convenience stores nationwide.²

| TOP TEN PRODUCT CATEGORIES AS A PERCENTAGE OF IN-STORE SALES | | |
|---|--------------|--------------|
| | 2006 | 2007 |
| 1. Cigarettes | 33.7% | 32.9% |
| 2. Packaged Beverages (non-alcoholic) | 12.8% | 13.4% |
| 3. Foodservice | 13.4% | 14.0% |
| 4. Beer | 11.1% | 11.1% |
| 5. Salty Snacks | 3.8% | 3.7% |
| 5. Other Tobacco | 3.1% | 3.3% |
| 6. Candy | 3.1% | 3.0% |
| 8. General Merchandise | 2.2% | 2.6% |
| 9. Fluid Milk Products | 2.6% | 2.5% |
| 10. Edible Grocery | 1.9% | 1.8% |
| Total | 87.7% | 88.3% |

Source: 2008 NACS SOI Survey Data

Tobacco excise tax increases may harm legitimate, in-state retailers. In-state retailers lose sales and revenues when users of tobacco products react to a tax increase by shifting their purchases across state lines or to other sources, such as Native American territories or over the Internet, where taxes are often not collected. In fact, many Internet sites erroneously state that their products are free from state excise taxes. The effect of this purchasing shift on retailers becomes even more pronounced when tobacco purchases are bundled with other products, such as gasoline and groceries.

In the case of the current proposal, the taxes on a carton of cigarettes in Georgia would become up to \$12.76 more expensive than those sold in neighboring states.³ Substantial differences in the price per carton of cigarettes may also exist when purchases take place on Native American territories or through the Internet. When adult smokers act on these incentives, tax-paid cigarette sales fall for Georgia retailers.

Furthermore, following a cigarette excise tax increase, adult smokers spend more of their income on cigarettes and have less to spend on other goods, which hurts other segments of the economy. The Congressional Joint Committee on Taxation (JCT) notes that "because smokers are paying more in aggregate to smoke, they consume less of other goods and services in the economy. This implies that incomes of producers and workers in other sectors will decline."⁴ In fact, when estimating the revenue increase from a tobacco excise tax increase, the JCT offsets gross revenues by 25% to account for decreases in income and payroll tax revenues.

Tobacco Excise Tax Increases May Harm Legitimate, In-State Retailers.

¹ Retail locations based on internal PMUSA data and rounded down to nearest 10.

² *State of the Industry: Convenience Store Totals, Trends & Averages*, NATIONAL ASSOCIATION OF CONVENIENCE STORES, 2008.

³ The cigarette tax differential has been estimated by comparing Georgia's state excise tax including the proposed increase (\$13.70 per carton) and state sales tax (\$1.74 per carton) to all of its neighbors. The neighbor with the lowest combined taxes was South Carolina: state excise tax (\$0.70 per carton) and state sales tax (\$1.98 per carton). Tax rates are from: Bill Orzechowski & Rob Walker, *The Tax Burden on Tobacco*, vol. 44 (forthcoming February 2010); funded in part by Altria Client Services Inc.

⁴ Joint Committee on Taxation, *Modeling the Federal Revenue Effects of Proposed Changes in Cigarette Excise Taxes*, (JCX-101-07), October 19, 2007.

