

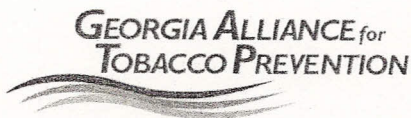
**Written Testimony to
The Special Council on Tax Reform and Fairness for Georgians**

**Daniel E. McGoldrick
Vice President, Research
Campaign for Tobacco-Free Kids**

On Behalf of:



**Atlanta, GA
August 26, 2010**



THE FACTS ON TOBACCO TAXES

1. *Georgia's cigarette tax is inordinately low, and as a result, the state is missing out on revenue and health benefits that other states are receiving.*

- Georgia's 37¢ per pack cigarette tax rate ranks it 48th of all the states and DC – ahead of only Louisiana, Virginia, and Missouri.
- Georgia's 37¢ per pack cigarette tax rate is more than a dollar – \$1.08, to be precise – below the current national average of \$1.45 per pack.
- Georgia's 37¢ per pack cigarette tax rate is almost four dollars – or \$3.98 – less than the highest cigarette tax rate, in New York state, at \$4.35 per pack.
- Georgia has not increased its cigarette tax rate since 2003. Since then, 38 states and DC have increased their cigarette tax rates 65 times (with many states having increased the rate multiple times).
- If Georgia increased its tax rate by \$1.00 per pack, it would be ranked 25th in the country and still be 10¢ below the new national average.

2. *A significant increase in Georgia's tobacco tax will generate substantial new revenue despite declines in tobacco use that would save lives and health care costs.*

- According to Georgia's Department of Audits and Accounts, a \$1.00 cigarette tax increase and a slight increase in the tax rate on other tobacco products (OTP) in Georgia will generate between \$354.7 and \$406 million in new revenue the first year after the increase. These estimates account for the decline in tobacco use brought about by the higher tax, as well as some cross-border shipping and illegal sales that evade the tax.¹ Equalizing tax rates on other tobacco products to the new cigarette tax rate would produce additional revenue for the state.
- *Every state* that has increased its tobacco tax rate significantly has produced large amounts of new revenue. There are no exceptions.
- **Last time Georgia increased its cigarette tax rate, by 25¢, in 2003, the state collected more than \$136 million in net new revenue in just the first year, despite a 15% decline in cigarette consumption.**

3. *Tobacco tax increases produce reliable revenue over time.*

- Past experience in all states shows that an increase in tobacco taxes produces immediate new revenue, and that new level of revenue remains stable over time.
- Six years after Georgia last increased its cigarette tax, cigarette tax revenues in FY 2009 were 95% of the amount raised in the first year after the rate increase and still \$124.8 million more than the state received in the year prior to the increase.²
- New federal legislation, the PACT Act, will further reduce tax avoidance through internet sales.
- Tobacco tax revenues will decline over time as tobacco use declines, but those revenue declines are gradual, predictable, and can easily be adjusted for.

¹ Georgia Department of Audits and Accounts, *Revised Fiscal Note for House Bill 39 (LC 18 7785)*, March 4, 2010.

² Orzechowski and Walker, *The Tax Burden on Tobacco*, 2009.

- Declines in tobacco tax revenues are also off-set by the decline in the state's health care costs due to reduced tobacco use.

➤ **Georgia can take steps to ensure the reliability of its revenue stream:**

- Make conservative revenue estimates
- Index new tax rates to inflation or build in a mechanism to pass new, significant increases every few years
- Equalize the state's OTP tax rates to the new cigarette tax rate
- Implement high-tech tax stamps on cigarettes and OTP

4. Cross-border sales happen, but are minimal. The state that raises its tobacco tax generates much more revenue and health benefits than a neighboring state that does not.

- In just the first 10 months after Florida's most recent \$1.00 per pack increase on July 1, 2009, Florida's cigarette tax revenues increased 186.1%, or \$680.5 million, compared to the same period the year before, while Georgia's revenues *decreased* by 7.1%, or \$12.8 million.³ Tobacco sales and tax revenue also decreased in Alabama (another low tax state) after Florida's tax increase, again countering the notion of large cross-border sales.⁴
- Similarly, the experience between Georgia and South Carolina after Georgia last increased its cigarette tax rate to 37¢ per pack showed smokers were not flocking to South Carolina to buy their cigarettes. The year after Georgia's tobacco tax increase, Georgia's cigarette tax revenues increased by 170.2%, or \$136.2 million even as tobacco sales declined by 15%. Next door in South Carolina, then with a 7¢ per pack tax, tobacco tax revenues increased by less than \$500,000.⁵

5. A tobacco tax increase is fair to Georgia taxpayers.

- Compared to the other states, Georgia's tobacco tax rates are very low.
- At \$2.25 billion per year, tobacco-caused health care costs in Georgia are more than ten times the revenue that the state receives from its tobacco taxes (roughly \$200 million).⁶
 - Georgia's state Medicaid program pays \$537 million per year for smoking-caused health care costs.⁷
- Smoking-caused health care costs in Georgia amount to \$3.81 per pack – compared to the state's cigarette tax rate of 37¢ per pack.⁸ Lost productivity from smoking adds even more costs to the state.
- **All Georgia taxpayers are paying for the health care costs due to tobacco use whether they use tobacco or not.**

6. The savings in health care costs as a result of reduced tobacco use in Georgia will help offset any declines in revenue over time.

- A \$1.00 per pack increase in Georgia is projected to save \$41 million in health care costs in just five years and almost \$2 billion in the long term.

³ Orzechowski and Walker, Tax Burden on Tobacco monthly reports

⁴ Orzechowski and Walker, Tax Burden on Tobacco monthly reports

⁵ Orzechowski and Walker, *The Tax Burden on Tobacco*, 2009.

⁶ U.S. Centers for Disease Control and Prevention (CDC) *State Data Highlights*, 2006

⁷ CDC, *State Data Highlights*, 2006

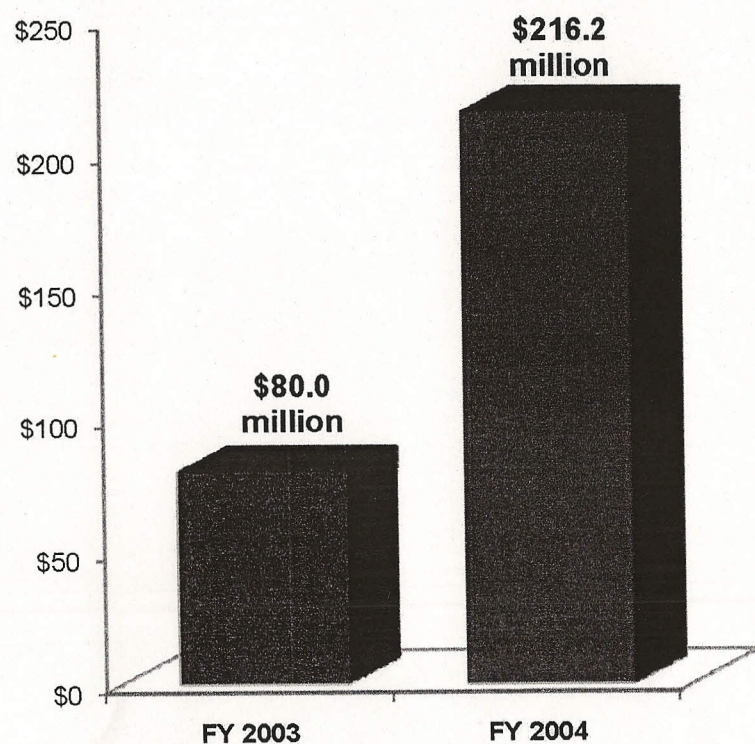
⁸ CDC, *State Data Highlights*, 2006

The Georgia Tax Experience

From 12¢ to 37¢ on 7/1/03

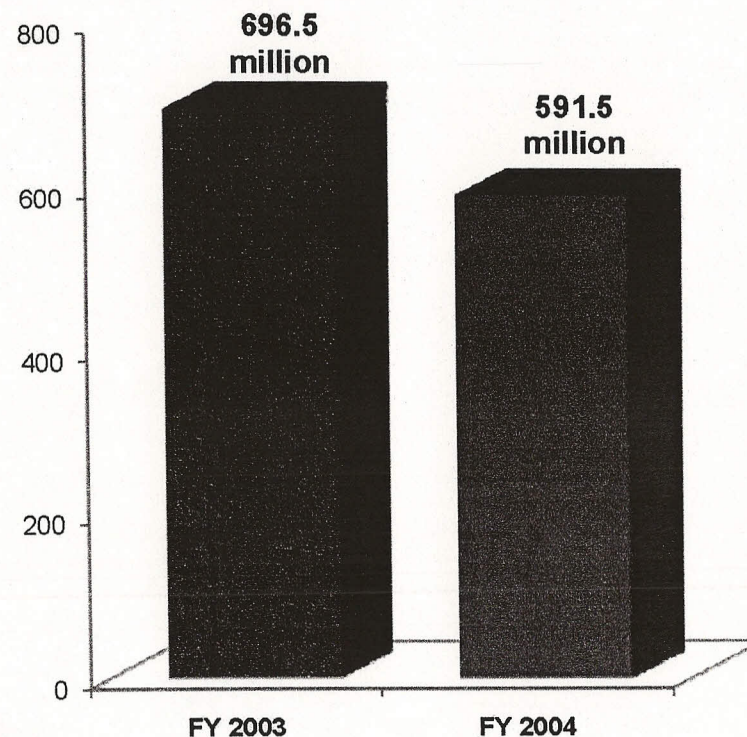
Revenues Collected

+ 170.2%



Pack Sales

- 15.1%

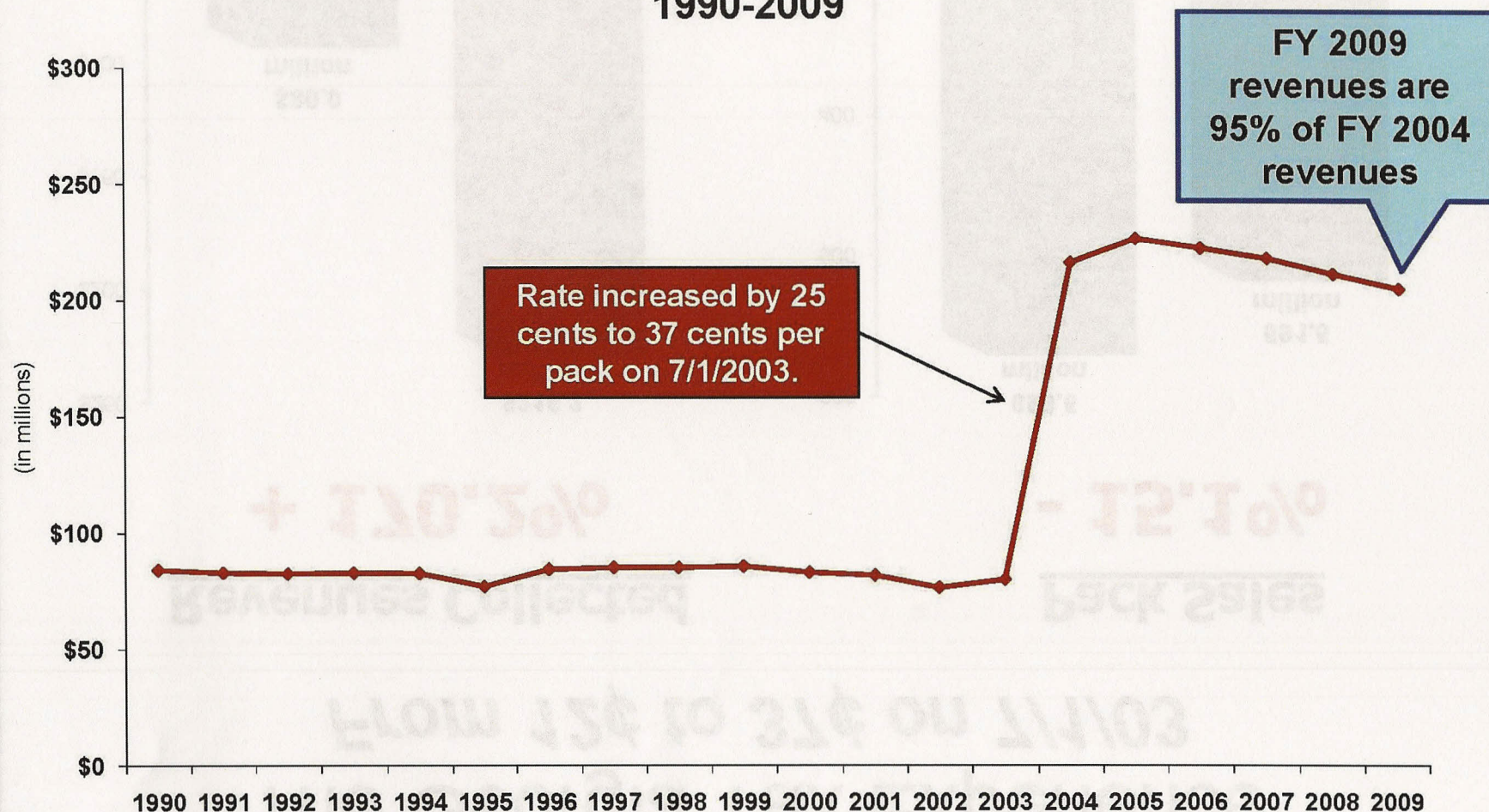


Source: Orzechowski & Walker, *The Tax Burden on Tobacco*, 2009 [industry-funded report]

Reliability of Cigarette Tax Revenue Following a Significant Increase

CIGARETTE TAX REVENUE IN GEORGIA

1990-2009

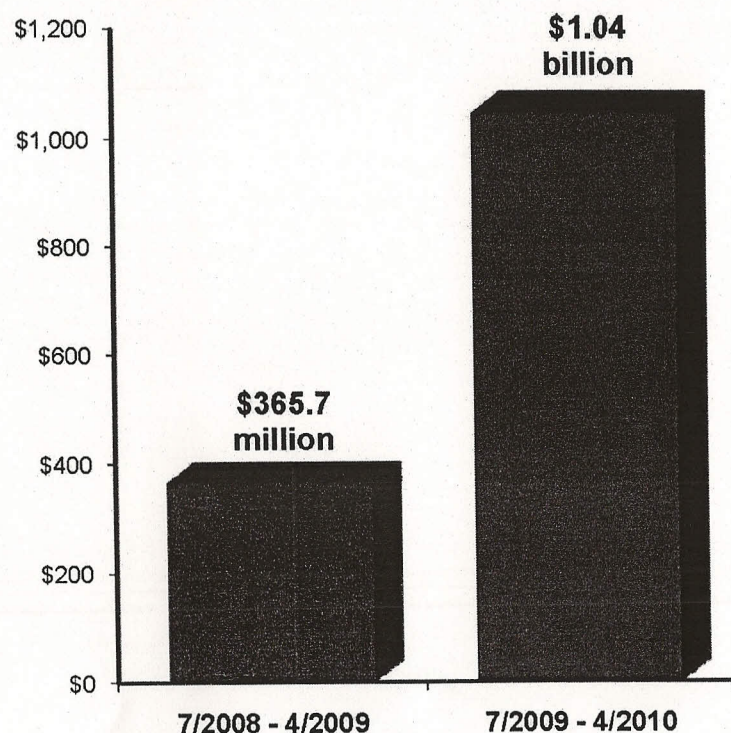


Source: Orzechowski & Walker, *The Tax Burden on Tobacco*, 2009 [industry-funded report]

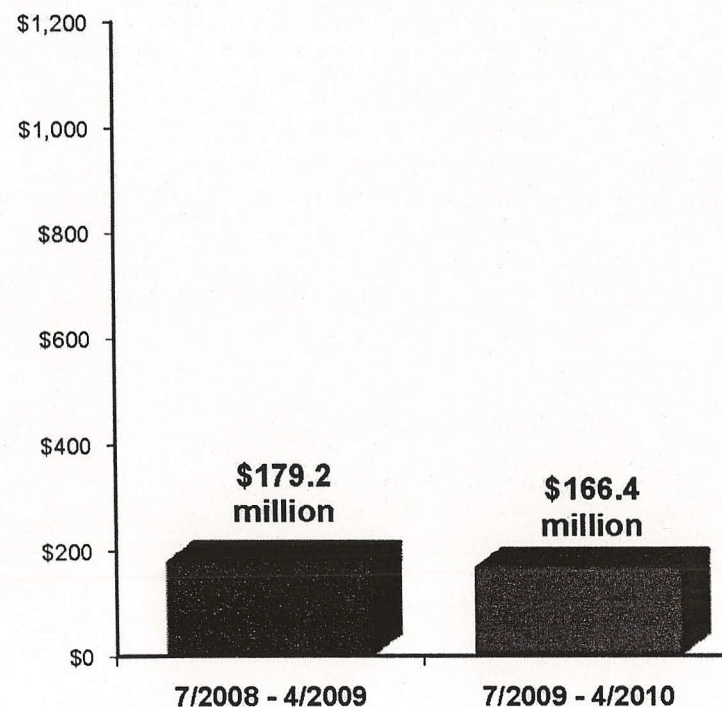
Cigarette Tax Revenue in FL and GA

10 months before and after FL's increase

Florida
+ 186.1%



Georgia
- 7.1%



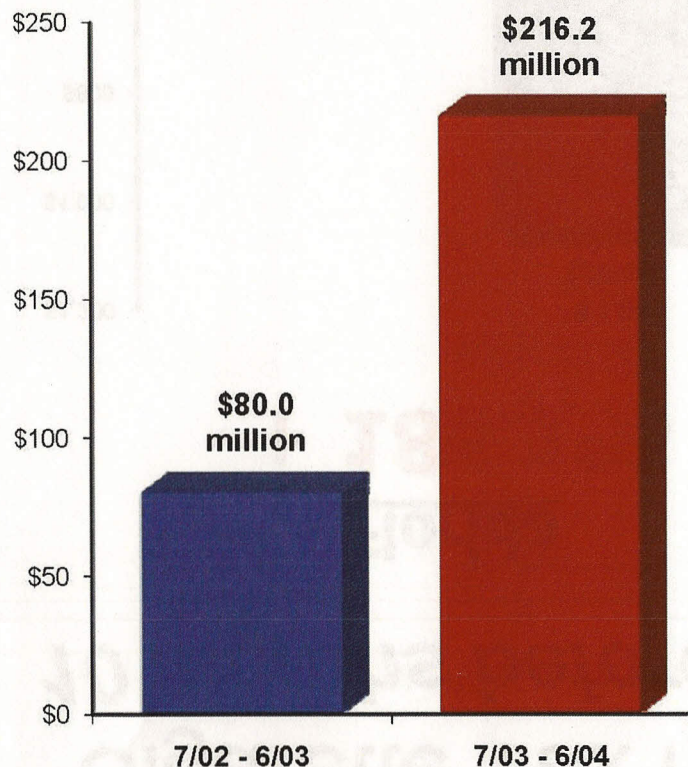
FL Tax Increase from 34 cents to \$1.34 effective 7/1/2009; GA Tax is 37 cents.

Cigarette Tax Revenue in GA and SC

FY 2003 vs. FY 2004

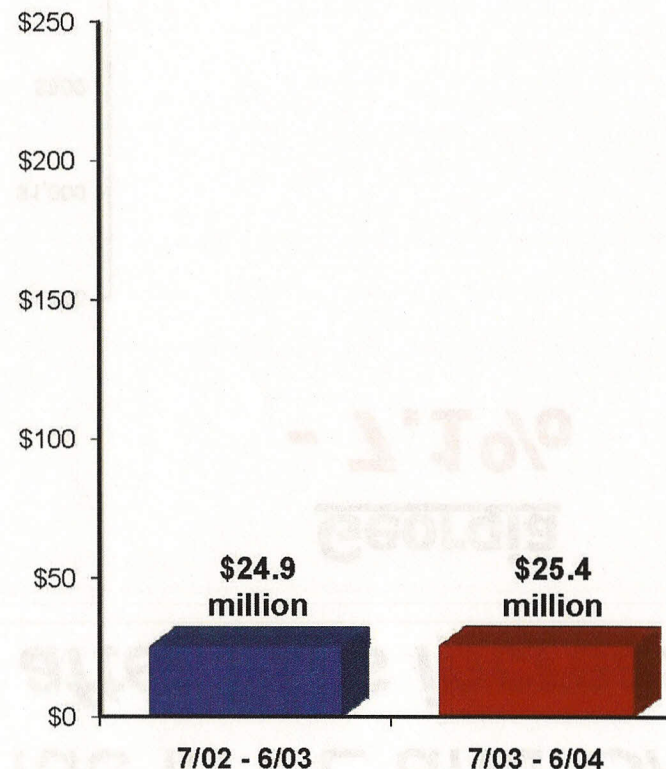
Georgia

+170.2%



South Carolina

+1.9%



GA Tax Increase from 12 cents to 37 cents effective 7/1/2003; SC Tax was 7 cents.