



Smoke and Mirrors

The troubling implications of a tobacco tax increase

Illinois legislators are being asked to consider a \$1.00 per-pack increase in the state's cigarette excise tax. Tobacco tax hikes come with a number of significant apolicy complications, including:

Cigarette tax hikes are an unreliable source of funding. Out of the 57 state cigarette tax hikes implemented between 2003 and 2007, only 16 met or exceeded their revenue projections.

Table 1. Illinois's Cigarette Tax and Tobacco Products Tax Revenues Are Falling

Actual FY 2007	Actual FY 2008	Estimated FY 2009	Projected FY 2010
\$639,000,000	\$614,000,000	\$581,000,000	\$570,000,000

Rate increases

do not ensure significantly higher revenue intakes. Maryland increased its tobacco tax in 2008, yet updated revenue estimates pegged the actual intake at only half of what was expected when passed. In 2006, New Jersey increased its cigarette excise tax by 17.5 cents, yet the state's tobacco revenue collections actually dropped \$22 million.

Non-smokers could eventually be on the hook for higher general taxes as spending surpasses cigarette tax intake.

Revenue from cigarette tax increases is frequently tied to growing social programs like education. When tobacco tax revenues fall short, other taxes are

often increased. Indeed, a study by the National Taxpayers Union found that for tobacco tax hikes implemented between 2001 and 2006, "taxpayers faced a 7 out of 10 chance of seeing another net annual tax hike within two years."

High tobacco taxes encourage consumers to shop elsewhere.

If Illinois increased its tobacco tax by one dollar, cigarettes sold in neighboring states would have a per-pack state excise tax price advantage ranging from \$0.62 (Iowa) to \$1.81 (Missouri). Additional cigarette taxes in Chicago and Cook County add \$2.68 to the disparity in tax rates.

Tobacco tax increases hurt retail jobs.

Thousands of Illinois retailers sell cigarettes. Industry sources estimate that a \$1.00 per pack increase would result in a 25 to 30 percent reduction in cigarette sales, which would

undermine the 7,000 Illinois retailer and wholesaler jobs supported by tobacco sales.

Tobacco tax hikes hit the poor hard.

According to the Heartland Institute, "Not only are lower-income earners more likely to smoke, they also smoke more frequently.

They bear more of the tax burden than higher-income earners, in absolute terms and as a percentage of income." The federal tobacco tax was already increased by 156 percent this year, going up from \$0.39 cents to \$1.00.

Instead of targeting tobacco consumers,

Illinois leaders should look to reform the spending obligations that prompt the call for higher taxes.

Learn more at www.illinoispolicy.org.

Table 2. With \$1.00 Tax Increase, Illinois's Tobacco Excise Tax Is High Compared to Neighboring States

	Tobacco Excise Tax	Illinois's Per-Pack Tax Premium
Illinois	\$1.98	
Indiana	\$0.995	\$0.985
Iowa	\$1.36	\$0.62
Wisconsin	\$2.52	-\$0.54
Missouri	\$0.17	\$1.81
Kentucky	\$0.60	\$1.38