



# Budget Facts 2010

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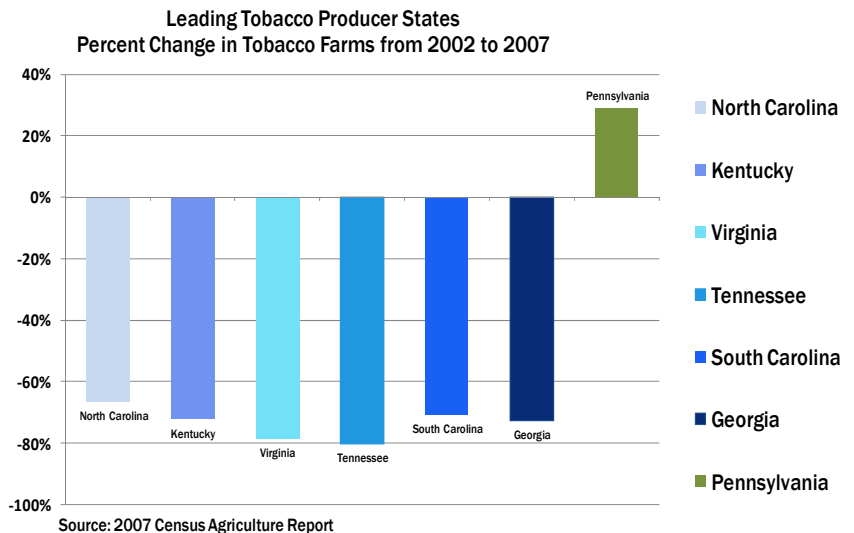
## Tobacco Taxes

*Pennsylvania faces a projected General Fund shortfall of at least \$1.1 billion. Gov. Rendell proposed a \$29 billion budget for FY 2010-11 that increases business taxes, imposes new taxes on natural gas and tobacco products, and expands the Sales Tax to include many goods and services currently exempt. This is the sixth in a series of fact sheets on the Pennsylvania state budget.*

### BACKGROUND

Pennsylvania remains the only state that does not impose an additional excise tax on smokeless tobacco and one of only two that does not apply an excise tax on cigars. It is also the only state adding tobacco farms.

- According to Census data, Pennsylvania is the only tobacco farming state that added farms from 2002 to 2007. During this period the nation's tobacco farms dropped by 72%, while Pennsylvania's rose by **almost 30%**.
- Tobacco production from Pennsylvania family farms increased over 100% from 2005-2009, and reached a value of \$31.5 million.



### GOVERNOR RENDELL'S PROPOSED TAX

- Gov. Rendell proposed a tax of **30%** on the retail price of cigars and smokeless tobacco products, in hopes of collecting **\$42 million** in the upcoming fiscal year.
  - ⇒ House Democrats recently proposed to exempt cigars from the excise tax, but increase the cigarette tax by another 30 cents per pack, expecting to generate \$194 million.
  - ⇒ Based on the Pennsylvania State Tax Analysis Modeling Program (PA-STAMP), this tax hike would result in **3,000 fewer private sector jobs** in 2011 in the state.

### LOCAL JOBS MIGHT MOVE

A disproportionate number of online cigar wholesalers call Pennsylvania home precisely because there is no additional excise tax on smokeless tobacco products and cigars.

- When a similar excise tax was proposed last year, Keith Meier, CEO of Cigars International, said his \$90 million company with 150 employees might "swim to sunnier shores, such as Florida" if a tax was adopted.

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### **A STATE TOBACCO TAX WILL IMPACT PENNSYLVANIA'S FARMERS**

Excise taxes on smokeless tobacco and cigars will hurt Pennsylvania's small tobacco farmers, many of whom are Amish or Mennonite—not large tobacco companies.

- According to the U.S. Department of Agriculture, tobacco is grown on small farms in the state with an average of 6.1 acres.
- Many tobacco farmers grow tobacco as supplementary income to cover annual real estate taxes and to keep their farms in production.

### **TAXES ON CIGARETTES AND TOBACCO PRODUCTS ARE NOT AN EFFECTIVE REVENUE SOURCE**

In a 2009 study, Altria found the following: of 57 state excise taxes imposed from 2003 through 2007, only 16 met revenue projections.

- Thirty-nine state tax increases generated revenue 2% to 18% short of estimates.

### **HIGHER TAXES ENCOURAGE SMUGGLING AND DO NOT AFFECT CONSUMPTION**

Cigarette and tobacco consumption is sensitive to price changes and consumers will seek out ways to avoid high taxes on these products.

- The Mackinac Center found that states imposing the highest cigarette taxes suffer smuggling rates as high as 40% and sustain high losses of tax revenue.
  - ⇒ A study by the University of Illinois at Chicago found 75% of cigarette packs were purchased outside of the city, where cigarettes are significantly cheaper.
  - ⇒ The Maryland Public Policy Institute found the Old Line State's 2007 cigarette tax did not deter smoking but encouraged smokers to buy their cigarettes in neighboring states with lower tax rates, including Pennsylvania.

### **SMOKELESS TOBACCO TAX MOTIVATION**

This excise tax on smokeless tobacco is not about health. It is about politicians' desire for more revenue.

- 100% of the revenue collected from the proposed tobacco tax will go to the General Fund—not directly for health-related programs.
- The Wall Street Journal concluded the health risks of smokeless tobacco are overblown.
  - ⇒ According to Joel Nitzkin, chairman of the tobacco control task force of the American Association of Public Health Physicians, smokeless tobacco products raise the risk of premature death by only 2% of the amount cigarette smoking does.

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