



Tobacco Tax Increase Is Wrong For Utah

What is worse than a tax increase? A tax increase that doesn't generate revenue. When considering stable, long-term tax revenue for Utah, elected officials must consider the likelihood of actual revenue. Unfortunately, Utah legislators are ignoring the facts and are determined to pass an increased tax on tobacco.

Utah's legislators are considering two bills that would raise the tax on tobacco products. The first, SB40 (Christensen) has passed the Senate. The bill will raise the tax on cigarettes to \$1.70 per pack. In addition, HB196 passed the House of Representatives, 37 in favor, 35 opposed. The bill would raise the tobacco tax by 88.5 percent in the 2010-2011 budget and maintain the tobacco tax at 110 percent of the national average.

Local convenience stores, supermarkets and specialty stores provide tobacco products to a small percentage of Utah consumers. Utah boasts the lowest rate of tobacco usage in the nation (9 percent) and demand for these products continues to decline. Despite this diminishing tax base, support for an increased tax rate on tobacco continues to grow.

Tobacco users have shown their ingenuity in avoiding higher costs. Instead of paying higher taxes in Utah, studies show that consumers cross the border into neighboring, lower tax states, thereby adding revenue to neighboring state coffers and decreasing sales in Utah.

The most clear cut example of cross-border sales followed the 1997 tobacco tax hike. In 1997 the Utah legislature increased the tobacco tax making the price of a carton of cigarettes in Utah \$4.00 higher than in Wyoming. Directly following the increase, Price Waterhouse investigated 30 retailers in the city of Evanston, Wyoming. The study found in the four months following the tax hike, Evanston stores showed an average cigarette sales increase of 23 percent.

To add insult to injury, overall sales increased in Evanston by 10.5 percent as Utah residents purchased other goods such as gas and food while making cross-border tobacco trips. And this phenomenon is not unique to Utah. Of the 57 instances when tobacco taxes have been increased throughout the country in the last five years, 41 of those increases failed to result in the projected revenue. Some states even fell over \$100 million short.

Recent proponents of the Utah tobacco tax proposals repeatedly cite the need for increased revenue during this time of financial difficulty. However an increased tax on tobacco fails to generate the necessary revenue to alleviate Utah's budget gap. While there are many reasons to reject the tobacco tax proposals; it imposes a high tax on a narrow base, is the most regressive of all taxes and attempts to force behavioral change through tax policy, the increased tobacco tax fails to meet the most basic of all tax policy. It doesn't actually generate revenue for Utah.