



Real Men of Genius - DC City Council Edition Cigarette Tax Hike Reduces Revenue

Yesterday Washington, DC's Chief Financial Officer, Natwar Gandhi, sent a letter to Mayor Fenty informing him that new estimates show revenues in the current budget to be \$17 million shy of initial projections. A big reason for the downward revision: the recent cigarette tax increase.

DC City Council members raised DC's cigarette excise tax 50 cents last year, bringing the rate to \$2.50 per pack. The council members, in their infinite wisdom, failed to consider the effect that would be had by raising the District's cigarette tax rate 25% higher than neighboring Maryland and a whopping 733% higher than is levied across the river in Virginia.

It gets better. Not only do new estimates show the tax hike will bring in \$15 million less than was originally projected, cigarette tax revenue is expected to actually be \$7.6 million less than pre-hike levels. In his letter to Fenty, Gandhi noted:

"future increases in the tax rate will likely generate less revenue."

The Campaign for Tobacco Free Kids recently published a report claiming that a dollar per pack increase in cigarette excise taxes would raise revenue in every state, including Washington, DC. DC's budget revisions and Gandhi's conclusions show that claim to be false and should call the entire report into question.

Lawmakers in Georgia and South Carolina, where cigarette tax hikes are currently under consideration, would be wise to learn from Washington's mistake, which yet again proves that cigarette tax hikes are bad policy and a dubious source of revenue. Furthermore, cigarette tax increases serve as nothing more than a place holder for future tax increases on income, property, sales, and other goods and services.

Other examples of failed cigarette tax hikes are abound:

- New Jersey raised the cigarette tax 17.5 cents in 2007. They collected \$52 million less than they had projected and \$22 million below what they collected before the tax hike.
- After Maryland raised the cigarette tax \$1 in 2007, sales dropped by 25% and there was a 254% increase in cigarettes illegally crossing state lines.
- Arkansas passed a 56-cent tax hike on cigarettes in February 2009. On the heels of the federal cigarette tax increase, the bill was estimated to bring in \$86 million, but the projection was lowered to \$72 million just one month after passage. Then, in December, the Department of Finance and Administration predicted a \$10.3 million drop in tobacco tax collections.
- Mississippi raised the cigarette tax by 50-cents in May 2009. The hike was expected to raise \$113 million in the first year, but by August projections were already off by \$4.7 million.
- Rhode Island raised the cigarette tax by \$1 to \$3.46 per pack last year. By November revenue projections were down by \$7.7 million.

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