

September 7, 2007

REVIEW & OUTLOOK**Dope Smokers***September 7, 2007; Page A14*

New Jersey citizens have long thought their politicians were smoking something, and now they know for sure. Read on for a lesson in vice, taxes and diminishing returns.

Cigarettes have become every pol's favorite tax target, and last year Trenton raised its cigarette tax to \$2.575 per pack -- the highest state levy in the nation. Governor Jon Corzine forecast that the tax increase of 17.5 cents a pack would fetch \$30 million in revenue to help balance the state's \$1 billion deficit. Not quite. A new analysis by the Center for Policy Research of New Jersey finds that the state collected \$23 million *less* revenue from tobacco taxes in Fiscal 2007 than it did the year before.

Anti-smoking and health advocates say this proves that high taxes on cigarettes reduce smoking. And they're partly right: When you tax something, you get less of it. If only politicians kept that in mind when they were taxing work, investment and saving -- as opposed to "sin."

But this isn't the main explanation for the revenue plunge. New Jersey residents are still lighting up; they're simply buying more Camels and Marlboros outside their state. In neighboring Delaware, for example, cigarette sales at convenience stores are up, in part because Garden State residents save about \$20 per carton by stocking up when they cross the state line.


Something similar is going on all over the U.S., where cigarette taxes have on average tripled in the last decade, but treasuries aren't getting the revenue boost. For consumers, tax-free online cigarettes are only a mouse click away, and these purchases now cost the states more than \$1 billion a year in lost tobacco taxes, according to the Campaign for Tobacco-Free Kids. Washington state, which levies a tax of \$2.03 a pack, loses an estimated \$200 million a year to out-of-state purchases, according to the Seattle Times. Californians smoke 300 million untaxed packs of cigarettes a year thanks to the Internet, smuggling, and out of state sales.

In New York City, where the combined city and state tax is \$3 a pack, smugglers sell bootlegged cigarettes on street corners much like drug dealers. Three weeks ago a sting operation in Queens busted a black market tobacco ring of "unbelievable proportions," in the words of one official. The sting found a half-million untaxed cartons of cigarettes that were being sold out of car trunks to avoid the tax hit. The Tax Foundation estimates that half the cigarettes smoked in the Big Apple come from such illicit operations.

Patrick Fleenor of the Tax Foundation says states that tax cigarettes at more than \$2 a pack "are getting close to that tipping point" where they may start to lose money from further tax increases. This is a special problem for those states -- such as California, Maryland and Wisconsin -- planning to raise cigarette taxes to pay for expanded government health-care coverage. The new spending commitments will be permanent and rapidly expand, while the revenues from tobacco taxes will decline.

State cigarette tax collections may fall by an estimated \$1 billion more if Congress goes ahead with its plan to raise the federal cigarette tax to \$1 a pack from 39 cents in the name of funding an expansion in

DOW JONES REPRINTS

 This copy is for your personal, non-commercial use only. To order presentation-ready copies for distribution to your colleagues, clients or customers, use the Order Reprints tool at the bottom of any article or visit:
www.djreprints.com.

- [See a sample reprint in PDF format.](#)
- [Order a reprint of this article now.](#)

health-care spending of \$132.6 billion. The Heritage Foundation calculates that, to make those numbers add up, some 22 million Americans would have to *start* smoking over the next decade.

So, light up, friends. You may kill yourself, but your bad habits will let the politicians continue theirs.

URL for this article:

<http://online.wsj.com/article/SB118912565152120132.html>

Copyright 2007 Dow Jones & Company, Inc. All Rights Reserved

This copy is for your personal, non-commercial use only. Distribution and use of this material are governed by our [Subscriber Agreement](#) and by copyright law. For non-personal use or to order multiple copies, please contact **Dow Jones** Reprints at 1-800-843-0008 or visit www.djreprints.com.

RELATED ARTICLES AND BLOGS

Related Articles from the Online Journal

- [Of Bridges and Taxes](#)

Blog Posts About This Topic

- [Tobacco Tax Up, Revenues Drop](#) blog.spn.org
- [Editorial Notes Government's Addiction to Tobacco Revenues](#) tobaccoanalysis.blogspot.com

More related content

Powered by [Sphere](#) 