



March 19, 2010

Governor Herbert,

I write urging your veto of House Bill 196, the bill carrying a \$1.00 per pack increase on cigarette taxes. Consistent with Utah's well-known tradition of fiscal responsibility, earlier this year you declared that the best path through the current budget problem is "to exercise continued fiscal restraint and to not raise taxes." **I urge you to adhere to these principles, and veto this tax increase.**

While it is always ill-advised to raise taxes in a recession, HB 196 would do so on Utahans least able to afford it. On average, smokers have a median income of little more than \$36,000, about 30 percent less than non-smokers.

A mere \$1 per pack tax hike would cause retailers and businesses to lose as much as \$108 million in revenue over the next two years, far above the projected \$87 million increase in tax collection.

Evidence from other states shows that tobacco taxes are a declining revenue stream, which rarely meet revenue projections. When the price of a product goes up from a tax, demand necessarily drops and takes additional tax revenue with it.

- 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. The bill was estimated to bring in \$86 million, but the projection was lowered to \$72 million just one month later. 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, 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.
- Washington, D.C. raised the cigarette tax by 50-cents to \$2.50 per pack in 2009. Estimates released in February, just months later, show the tax hike will bring in \$15 million less than projected and cigarette tax revenue will actually be \$7.6 million less than pre-hike levels.

As a declining revenue source, tobacco taxes are placeholders for future tax hikes once the state becomes reliant on the budgeted revenue. As cigarette consumption continues to decline and businesses lose a significant amount of revenue, overall tax revenue will also decline.

If you have any questions, please contact Kelly William Cobb or Nathan Pick, state affairs managers, at (202) 785-0266.

Onward,

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