



AMERICANS *for* TAX REFORM

Grover G. Norquist
President

December 15, 2008

Arkansas House and Senate Republicans

Dear Members of the Arkansas Legislature,

In these times of economic uncertainty, it is critical now more than ever to oppose tax increases. Yet this week in his annual State of the State address, **Arkansas Governor Mike Beebe outlined a 56-cent per pack tax hike on cigarettes.** Any tax increase on cigarettes and tobacco products will hit hardworking Arkansas families and consumers the hardest, increase smuggling of cigarettes across state lines, and fail to bring in enough revenue to fund the Governor's increased spending plans.

The Arkansas Constitution requires a three-fourths majority to pass all tax increases. As Republicans, I urge you to stand together for lower taxes and spending restraint in opposition to the Governor's proposal.

The proposal would push Arkansas's cigarette tax to \$1.15, well beyond neighboring states, which collectively average 63-cents. This will only serve to drive consumers to surrounding states with lower tax rates and increase illegal cigarette smuggling across state lines. After Maryland raised the tobacco tax last year, the state saw a 25% drop in cigarette sales and a sharp decline in cigarette tax revenue from consumers who purchased products in nearby states. During the first half of the year, Maryland also recorded a 254% increase in illegal cross-border cigarette smuggling, as the state's cigarette tax rate is higher than that of neighboring Virginia.

Governor Beebe aims to use the estimated \$87.8 million tax increase to expand spending on the state's healthcare system. However, evidence from nearly every state that has unfairly targeted smokers for more revenue shows that very few cigarette tax hikes actually meet their revenue goals. Even Governor Beebe acknowledged during his State of the State address that "tobacco taxes are a dwindling revenue stream." When New Jersey raised the cigarette tax just 17.5 cents in 2007, expecting to bring in an additional \$30 million, the state ended up losing \$22 million in total tax revenue from tobacco. In fact, only 16 of the nearly 60 tax hikes on cigarettes between 2003 and 2007 met their revenue targets. **Simply put, raising taxes on a declining revenue source like tobacco to fund large state spending programs is a recipe for higher taxes in years to come.**

As this year's legislative session opens, it is critical to stand up for consumers and taxpayers in opposition to tax increases. In this economic downturn, the burden of larger government will only further depress economic activity. Instead, the state would do well to take a lesson from Arkansas families, who are cutting back their spending habits. If you have any questions, please contact Kelly Cobb or Nathan Pick, state affairs managers, at (202) 785-0266.

Onward,

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