



AMERICANS for TAX REFORM

Grover G. Norquist
President

February 9, 2009

Arkansas State Senate

Dear Members of the Arkansas Senate,

Last week the Arkansas House narrowly passed House Bill 1204 that would raise the tax on cigarette consumers by 56-cents per pack. **As the Senate considers House Bill 1204, I urge you to stand with Arkansas consumers and businesses to oppose this \$88 million tax hike**, which will likely fail to bring in enough revenue to fund a new state healthcare system.

The Arkansas Constitution requires a three-fourths majority to pass all tax increases. Standing against House Bill 1204 is a critical step to keeping taxes low in Arkansas.

Last week, President Obama signed into law a new 61-cent hike in the federal cigarette tax. Combined with the new federal tobacco tax, HB 1204 would cause Arkansas smokers to see their cigarette tax rise by \$1.17 per pack – a 119% tax increase!

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." For example, 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 \$24 million in total tax revenue from tobacco.

Raising taxes on a declining revenue source like tobacco to fund new state spending programs is a recipe for higher taxes in years to come. As tax revenue decreases and commitments to a new state trauma system increases, legislators will be forced to raise taxes in the coming years for additional revenue. Furthermore, when combined with the new federal cigarette tax, this revenue from an increased state cigarette tax will decline even faster than projected. If the state's trauma system is a priority, it should be funded through the current budget and existing resources.

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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