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Tax Hike on Cigarettes will Not Solve Virginia Budget Crisis

Tax Hike Will Violate Taxpayer Protection Pledge

Washington, D.C. – Facing \$2.9 billion in government overspending this year, Virginia Gov. Tim Kaine (D) is expected to propose doubling the state cigarette tax tomorrow as part of a package to balance the state budget. If passed, the cigarette tax would rise to 60-cents per pack - the largest single tax increase on cigarette consumers in Virginia's history.

Attempting to solve the state's budget crisis with a tax increase would be a violation of the **Taxpayer Protection Pledge**, which 8 State Senators and 22 House Members in Virginia have signed to oppose any and all efforts to increase taxes.

Critics contend that Governor Kaine's attempt to solve the state's overspending problem with a tobacco tax increase will do little to bring in more revenue. Of the near 60 tobacco tax increases around the country since 2003, very few actually met their targets for anticipated revenue. For example, New Jersey raised the cigarette tax just 17.5 cents in 2007 expecting to bring in an additional \$30 million. In actuality, the state lost \$22 million in tax revenue from cigarette consumers, contributing the current \$1.2 billion deficit. Similarly, when Maryland doubled the cigarette tax last year to cover a budget projection shortfall, cigarette sales dropped nearly 25%.

"Evidence from almost every state that has unfairly targeted smokers to solve overspending problems shows that cigarette taxes simply do not bring in that much revenue," said Grover Norquist, president of Americans for Tax Reform. "Doubling the tobacco tax in Virginia will just drive consumers to bordering states with lower rates, like North Carolina, Kentucky, and West Virginia. Sending consumers to pay taxes elsewhere will certainly not solve the problem."

Cigarette taxes can also hit small businesses and personal income necessary to sustain economic growth. Tax hikes on common products like cigarettes, which comprise 34% of convenience store sales, can have larger effects on the broader economy. In fact, the U.S. Congressional Joint Committee on Taxation reduces the gross revenue of cigarette tax increases by 25% just to account for subsequent reductions in income and payroll taxes.

"The only thing tax hikes do during an economic downturn is help impede any further growth and defer needed reform," added Norquist. "The Governor's tax hike is just a way to paper over the need to set real budget priorities rather than a viable solution to the state's funding woes."

Americans for Tax Reform (ATR) is a non-partisan coalition of taxpayers and taxpayer groups who oppose all tax increases. For more information or to arrange an interview please contact John Kartch at (202) 785-0266 or by email at jkartch@atr.org.

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