



February 15, 2016

Dear Members of the Oklahoma Legislature,

On behalf of Americans for Tax Reform and our supporters across the state, I urge you to keep taxpayers in mind as you review important policies this legislative session. Over the last six years, your constituents have endured historically a sluggish economic recovery in which the median wage has declined, and have been laden with over 20 federal tax increases. Now taxpayers are in danger of suffering another blow to their paychecks. However, this time, Gov. Mary Fallin is spearheading much of the campaign. **As such, it is as important as ever that lawmakers in the Sooner State safeguard its citizens from further job-killing, income-reducing tax increases.**

In proposing hundreds of millions of dollars in tax increases, Gov. Fallin violated the Taxpayer Protection Pledge, a personal written commitment she made to taxpayers of Oklahoma to oppose any and all efforts to raise taxes.

One proposal before the legislature is an expansion of the state sales tax. **Oklahoma already dons the 6th highest sales tax in the nation at the combined state and average local rate of 8.77 percent.** The average local sales tax rate is the fifth highest in the nation. The governor's proposal would raise taxes by roughly \$200 million annually, a tax increase that low-income consumers and retirees will feel the most. **Any expansion of the list of services or products subjected to sales taxes should be offset dollar-for-dollar by state sales tax rate reductions.**

In addition to stripping more taxpayers of their hard-earned income, the legislature is being asked to expand Oklahoma's e-commerce taxing authority. This effort is not new; in fact, for more than 15 years, efforts to tax the Internet have been appealing to those who seek to raise taxes on those who cannot vote them out of office. The costs of imposing these tax hikes would be a huge hit to small businesses, even if larger companies may be able to afford compliance.

The next target of tax-hungry politicians in Oklahoma is smokers, in the form of House Joint Resolution 1058. Contrary to the claims made by organizations like American Cancer Society Cancer Action Network, extensive studies suggest that inflicting higher cigarette taxes on consumers will superfluously punish the poor without necessarily reducing smoking. **As a result of regressive cigarette taxes, many smokers minimize the impact of cigarette tax increases by seeking out lower-priced or untaxed cigarettes, or by smoking fewer cigarettes more intensively.**

Increasing the state's dependence on tobacco taxes by increasing them by as much as \$1.50-per-pack will not necessarily guarantee more revenue in the long run. **As demonstrated by many states and cities across the nation, targeted excise taxes have proven to be unstable sources of revenue and ultimately can result in a decrease in tax receipts.** For example, Illinois nearly doubled its cigarette tax in 2012 by raising the tax \$1-per-pack; it generated \$138 million less than projected. **In fact, only three out of the 32 state tobacco tax increases, enacted between 2009 and 2013, have met or exceeded tax revenue projects.**

722 12th Street N.W.

Fourth Floor

Washington, D.C.

20005

T:(202)785-0266

F:(202)785-0261

www.atr.org

If enacted, this tax increase would likely incentivize cigarette smuggling and cross-border sales into states like Missouri and Kansas. According to the Tax Foundation, when Illinois almost doubled the cigarette tax rate, cigarette smuggling rate dramatically increased from 1.1 percent to 20.9 percent in the first year. **Consequently and as a direct result of cigarette tax increases, small businesses like convenience stores in this state lost tens of thousands of dollars as patrons pursued cigarettes in less expensive markets across state lines.**

Currently, Oklahoma has a regionally-competitive cigarette tax rate of \$1.03-per pack. It is higher than Missouri's \$.17-per pack tax and Kansas' \$.79-per pack. HJR 10580's \$1.50-per-pack cigarette tax hike would make cigarettes sold in Oklahoma more heavily taxed than anywhere else in the region, and the tenth highest taxed in the nation. **This cigarette tax hike would not only be a boon for states like Missouri, Kansas, and Texas, it would likely make Oklahoma among the most active black markets in America for cigarette sales.** The legislature should keep this in mind as it considers a cigarette tax hike in Oklahoma.

Furthermore, there is a large body of evidence demonstrating that keeping taxes as low as possible promotes economic growth. As Tax Foundation economist William McBride pointed out in his review of academic literature dating back three decades, "the results consistently point to significant negative effects of taxes on economic growth even after controlling for various other factors such as government spending, business cycle conditions and monetary policy." John Hood, chairman of the John Locke Foundation, has also discovered that keeping state and local tax and regulatory burdens as low as possible fosters economic growth. Through his analysis of 681 peer-reviewed academic journal articles going back to 1990, Hood found that, **"lower levels of taxes and spending, and less-intrusive regulation correlate with stronger economic performance."**

I urge you to resist efforts to raise taxes, especially on those consumers who can least afford it. It's not just bad policy; it's fiscally irresponsible to harm state small businesses and individuals in an attempt to reap funds from volatile revenue sources like cigarette sales.

Americans for Tax Reform will be following these issues closely throughout the year and will be educating your constituents as to how you vote on these important matters. **If you have any questions, or if ATR can be of assistance, please contact Miriam Roff, ATR state affairs coordinator, at (202) 785-0266 or mroff@atr.org.**

Onward,



Grover Norquist
President
Americans for Tax Reform

Cc: Governor Mary Fallin