AMERICANS for TAX REFORM

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Dear Members of the Indiana House of Representatives,

On behalf of Americans for Tax Reform and our supporters across the Hoosier State, I encourage you to reject efforts to raise gasoline and cigarette taxes. These tax hikes on commuters and low-income consumers represent a reckless approach to budgeting, especially in the midst of a $2 billion budget surplus. **Voting for House Bill 1001 or any bill that raises new revenue for the state would constitute a violation of the Taxpayer Protection Pledge.**

First, every dollar extracted from commuters in the form of excise or sales taxes on gasoline should already be used for transportation needs. It is contrary to the expectation of consumers to divert any portion of the state sales tax on gasoline towards priorities that are not related to transportation. **Any and all discussions about transportation should immediately and permanently codify the earmarking of gas tax revenue to new and existing transportation projects.**

Proposals that seek to index the gas tax to inflation put tax hikes on autopilot and remove from the budget process the responsibility and accountability associated with annual decisions about tax rates. A national public poll last year found that 79% of Americans oppose an increase in the gasoline tax to keep up with inflation and 68% oppose any increase in the gas tax to spend more for infrastructure.

Consumers oppose gas tax increases, whether they are 4 cents per gallon or in perpetuity to keep pace with inflation, because they rightly believe that there is more than enough currently collected revenue to fund a state's transportation needs. **Reasonably and low-priced gasoline allows people to spend more on groceries and other necessities, including long-term investment savings.**

Gas taxes are not "user fees." To qualify as a fee, a consumer must have the choice to purchase the service from the government (and pay the fee) or to purchase the service from a private business. Because anyone who purchases gasoline in Indiana must pay the tax, they are not considered user fees. Tolls are user fees, however, because commuters have the option of using the roads they are levied upon or not.

In total, the gas, special fuels, and motor carrier surcharge tax hikes proposed in HB 1001 represent nearly $730 million in tax hikes through 2020. In his State of the State address, Governor Pence urged the legislature to "invest in roads and bridges…without raising taxes." I agree with the Governor.

The current draft transportation package also seeks to raise the state cigarette tax by $1-per pack, representing $277.4 million in tax hikes annually. Tobacco taxes not only disproportionately harm low-income consumers and small businesses but are also a volatile revenue source.

Contrary to the claims made by organizations like Hoosiers for a Healthier Indiana, extensive studies suggest that inflicting higher cigarette taxes on consumers will superfluously punish the poor without 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 smoking fewer cigarettes more intensively.

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Increasing the Hoosier State's dependence on tobacco taxes by increasing them by $1-per-pack will not 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 result in a decrease in tax receipts. For example, neighboring 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.**

Currently, Indiana has a regionally competitive cigarette tax rate of $.995-per pack. It is higher than Kentucky's $.60-per pack tax and makes Indiana a net exporter of cigarettes to states like Illinois, which boasts the city with the highest state-local tax rate of $6.16-per pack in Chicago.

If enacted, this tax would likely incentivize cigarette smuggling and cross-border sales into states like Kentucky. 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, small businesses in this state lost tens of thousands of dollars as patrons pursued cigarettes in less expensive markets across state lines, including in Indiana.

Ohio's 2015 cigarette tax hike has already been a boon for Kentucky. **According to Kentucky Budget Director John Cilton, Ohio's recent 35-cent increase in cigarette taxes has already resulted in an increase in tax receipts in northern Kentucky.** The legislature should keep this in mind as it considers a cigarette tax hike in Indiana.

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

Americans for Tax Reform will continue to follow these issues closely and will be educating Indiana taxpayers as to how you vote on these important matters. If you have any questions, please contact Paul Blair, ATR's state affairs manager, at (202) 785-0266 or pblair@atr.org.

Onward,

Grover G. Norquist
President, Americans for Tax Reform