

Finance Committee Testimony

February 23, 2009

SB 930

**AAC The Cigarette Tax, the Tobacco Products Tax and the
Alcoholic Beverages Tax**

Chairman Daily, Chairman Staples and members of the Finance Committee, thank you for allowing me to appear before you today to testify in opposition to SB 930 that would increase the cigarette excise tax.

My name is John Singleton, and I am director of communications for Reynolds American, the parent company of the nation's second largest tobacco company, R.J. Reynolds.

As the legislature considers a huge increase in the state's cigarette excise tax, it's worthwhile to take some time to review a few facts that I believe will show that an increase is in fact an illusory tax. It will guarantee rapidly diminishing revenue, perhaps even less than the state currently receives. In addition, it will fall most heavily on that segment of the population least able to afford it.

In Connecticut, the average retail price of a pack of cigarettes was \$5.91 as of Nov. 2008. Of course, it will soon be higher since the federal government increased the federal excise tax by 62 cents per pack, effective April 1.

Of this \$5.91, the state of Connecticut already collects 39 percent, or \$2.33 per pack. The manufacturer's profit is six percent, or 33 cents per pack.

Connecticut collected almost \$529 million in cigarette revenue in fiscal year 2008. And since the Master Settlement Agreement was signed in 1998, Connecticut has received \$1.1 billion in settlement payments from the major tobacco companies.

The state receives this extraordinary amount of revenue because Connecticut retailers sold 167 million packs of cigarettes with a gross retail value of about \$895 million in fiscal year 2008. Merchants earned more than \$160 million in gross profits on these sales.

These tobacco sales supported some 2,000 jobs for workers in the retail and wholesale sectors of the state's economy.

The 50-cent-per-pack cigarette tax increase currently under consideration combined with the new 62-cent-per-pack FET increase will lead to drop in sales of an estimated 13.5 percent, or 23 million packs, and generate profit losses for Connecticut merchants of more than \$15 million.

It is hard to imagine a worse time to hit Connecticut wholesalers and retailers with a more devastating economic knockout punch.

And let's look at who provides the revenue generated by cigarette sales. It is a classic case of targeting low-income citizens to solve budget problems that all taxpayers should be called on to address.

Again, here are the facts.

Just over 34 percent of smokers nationwide have an average annual income of less than \$25,000. Compare this to the nearly \$67,000 the government collects every minute.

The median household income for smokers in the U.S. is \$36,330, while the median household income for nonsmokers is \$52,728 – a difference of more than \$16,000.

In Connecticut, the median household income for smokers is \$53,168, compared to \$75,428 for nonsmokers – a difference of more than \$22,000.

Placing an unfair tax burden on adult smokers to address the state's budget deficit will lead to many unintended consequences.

For example, in an effort to avoid paying high excise taxes, many smokers are purchasing cigarettes from the proliferation of Internet sites; others are driving to Native American reservations that don't charge state taxes; and still others are purchasing illegal cigarettes smuggled in from other states or from overseas. Such purchases, which reduce tax revenues, have exactly the opposite effect that those who voted for higher taxes intended.

In some states, such as New Jersey, high cigarette taxes have actually resulted in less revenue for two consecutive years in the wake of an increase in 2006 that gave that state the highest cigarette excise tax in the nation – \$2.575 per pack.

In addition to encouraging tax avoidance behaviors, high cigarette excise taxes:

- Have little impact on reducing the rates of underage smoking (some 98 percent of sales at retail are made to adults);
- Lead to loss of jobs and revenue, particularly in the retail and wholesale sectors; and
- Jeopardize what could be a significant, stable revenue source if taxed at a reasonable level.

An objective look at the facts makes it clear that there is no rational way to justify punitive tax profiling of working-class citizens, especially in the midst of one of the worst economic downturns in the history of our nation.

On the contrary, the evidence is abundant that adult smokers, who by any measure already pay excessive taxes, are currently carrying far more than a reasonable share of federal and state government revenue requirements.

Who Profits from Cigarette Sales?

CONNECTICUT

2008 Average retail price
as of 11/08 = \$5.91



