

## Five Reasons Why Raising Cigarette Taxes Harms Kansas

Tax increases often result in negative, unintended consequences. In Kansas, a \$1.50 increase in the cigarette excise tax would harm the economy, retailers, and adult consumers.

### 1. Uncertain Revenue

Total state tax-paid cigarette sales in Kansas have declined 3.0% a year for the last ten years.<sup>1</sup> If this trend continues or accelerates, the Kansas government will collect less revenue from cigarette excise taxes over time and this will result in large funding gaps.

### 2. Weakens Economic Growth

The historic economic crisis led to exceptionally high levels of unemployment and eliminated trillions of dollars of wealth from the American economy. Despite recent improvements, according to the U.S. Census, "in 2013, real median household income was 8.0 percent lower than in 2007, the year before the most recent recession."<sup>2</sup> Tax increases would weaken the already fragile economy by suppressing consumer spending, straining household budgets, and curbing retailer sales.

### 3. Harms Retailers

According to the National Association of Convenience Stores, cigarettes are the top revenue generator, accounting for 31.8% of in-store sales nationwide.<sup>3</sup> Increasing the excise tax could hurt legitimate retailers when adult smokers shift purchases across state lines or to other outlets, such as the internet. This would negatively affect Kansas's 2,700 retailers.<sup>4</sup>

### 4. Burdens Low-Income Earners

Cigarette excise taxes are regressive because they most negatively affect lower-income adult smokers. Based on data from the Centers for Disease Control and Prevention, 35.8% of adults in Kansas who earn less than \$15,000 are smokers, whereas only 12.6% of adults who earn \$50,000 or more are smokers.<sup>5</sup> Raising taxes will unfairly further burden low-income earners.

### 5. Increases Illegal Smuggling

An excise tax increase could provide incentives for smuggling and other contraband activities, resulting in lost tax revenues. In 2014, the Bureau of Alcohol, Tobacco, Firearms, and Explosives said "\$7 billion to \$10 billion in state and federal tax revenue is lost each year because of [cigarette] smuggling, up from \$5 billion a few years ago..."<sup>6</sup>

<sup>1</sup> Bill Orzechowski & Rob Walker, *The Tax Burden on Tobacco*, vol. 49 (February 2015); funded in part by Altria Client Services Inc.

<sup>2</sup> DeNavas-Walt, Carmen and Proctor, Bernadette D. (2014) "Income and Poverty in the United States: 2013" *U.S. Census Department Current Population Reports*, September P60-249; <https://www.census.gov/content/dam/Census/library/publications/2014/demo/p60-249.pdf>.

<sup>3</sup> NACS State of the Industry Report – 2013, National Association of Convenience Stores, 27<sup>th</sup> Edition, Table 9A.

<sup>4</sup> Retail locations based on internal PMUSA data and rounded to nearest 10.

<sup>5</sup> Centers for Disease Control and Prevention, *Behavioral Risk Factor Surveillance System; Prevalence and Trends Data; Nationwide (States and DC) – 2013 Tobacco Use*, Centers for Disease Control and Prevention, at <http://apps.nccd.cdc.gov/brfss/page.asp?vr=2013&state=All&cat=TU#TU>.

<sup>6</sup> Niquette, Mark and Deprez, Esmé E. (2014) "Cigarette Smuggling Increase Prompts Crackdown by States" *Bloomberg*, March 24; <http://www.bloomberg.com/news/2014-03-25/cigarette-smuggling-increase-prompts-crackdown-by-states.html>.



Information provided by Altria Client Services Inc. on behalf of Philip Morris USA Inc.

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1/20/2015

## Kansas Will Lose Money to Neighboring States from a Cigarette Excise Tax Increase

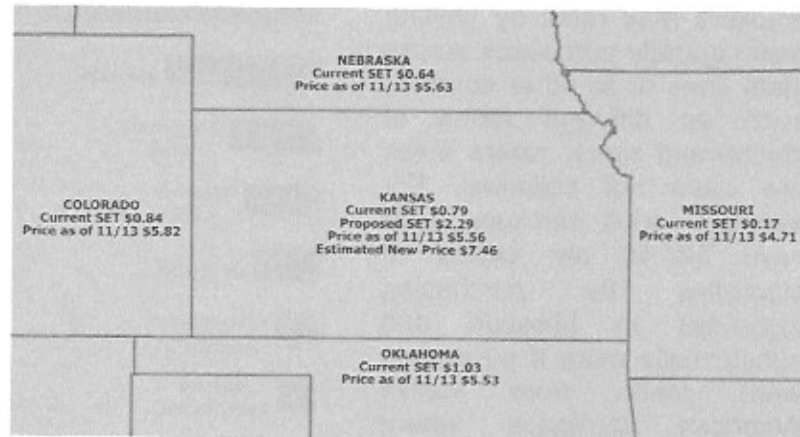
*A cigarette excise tax increase would raise pack prices and encourage adult consumers to make purchases in states with lower taxes. Lost sales means lost revenues for the Kansas government.*

The proposed \$1.50 cigarette excise tax increase will cause cigarette packs to be more expensive in Kansas when compared to its neighbors. The current average price per pack in Kansas is \$5.56.<sup>1</sup> If this tax increase were implemented, the average price would jump to \$7.46 per pack.<sup>2</sup>

Kansas adult smokers could save \$2.75 per pack or \$1,005 annually by purchasing cigarettes in Missouri where the average price is only \$4.71 per pack.<sup>3</sup>

### Potential Annual Savings for Pack-a-Day Adult Smoker across Kansas's Borders

Neighbor	Estimated Annual Savings
Nebraska	\$669
Missouri	\$1,005
Oklahoma	\$704
Colorado	\$601



As adult consumers shift purchases to other states, the government will collect less revenue than expected from a cigarette tax increase.

Combined with the fact that tax-paid cigarette sales are on the decline, cross-border sales will further destabilize this revenue stream.

<sup>1</sup> Bill Orzechowski & Rob Walker, *The Tax Burden on Tobacco*, vol. 49 (February 2015); funded in part by Altria Client Services Inc.  
<sup>2</sup> The resulting price in Kansas has been estimated by adding the \$1.50 tax increase, the resulting increase in the sales tax per pack and including an estimated 17.2% trade margin. The estimated trade margin is based on National Association of Convenience Stores (NACS), NACS State of the Industry Report – 2013, National Association of Convenience Stores.  
<sup>3</sup> Numbers may not add due to rounding.

