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Snuff Out This Bad Tax Idea

By Mark Kilmer

Florida, like many other states, is facing serious budget problems, so Governor Crist and legislative leaders are exploring ways to trim spending, boost revenue, or devise some combination of the two.

One bad idea that keeps resurfacing is to raise cigarette taxes by as much as a dollar a pack. Although this may sound appealing in light of the state's current fiscal problems and society's concerns about tobacco use, it's a deeply flawed approach.

First, it's blatantly unfair to single out one subgroup -- smokers -- and saddle them with a disproportionate share of the tax burden because their conduct allegedly makes them a burden on society. If this tactic works, who's next? Beer guzzlers? Coffee addicts? Obese teens hooked on bacon cheeseburgers?

Granted, some try to justify imposing higher taxes on smokers as payback for the costs they allegedly impose on society. Given the state's budget problems, this is an enticing *political* argument -- especially when the tax is disguised as a "user fee."

As if to rationalize this "fee," Brenda Olsen of the American Lung Association claimed in a recent op-ed column that cigarette smokers impose a cost that amounts to more than \$500 for every Floridian.

That's misleading. To get the full picture, you can't merely tally the costs blamed on smokers who use tax-funded programs such as Medicaid. Rather, you must also tally the money saved because of the smokers' higher mortality rate -- a rate that anti-smoking zealots are fond of citing when they're pushing for additional restrictions on smoking.

Weigh both factors, and you'll find that the *net* cost that smokers impose on the government amounts to about 35 cents a pack. Florida already taxes cigarettes at 34 cents a pack, and the feds get 39 cents a pack. On top of that, retailers add Florida's sales tax.

On balance, then, smokers already offset the cost they impose on Florida's taxpayers. Levying an extra dollar a pack is simply forcing them to pay a disproportionate share for government programs that are used by everyone.

This exorbitant rate of taxation -- about \$1.74 a pack, plus sales tax -- would be akin to tacking a \$17,000 excise tax onto the list price of each \$25,000 car -- then adding state and local-option sales taxes atop the \$42,000 sticker price.

Absurd? Absolutely -- unless you employ the rationale invoked on behalf of the cigarette tax: Cars emit harmful pollutants. Cars annually kill thousands of people and injure thousands more. Many

are treated at the taxpayers' expense in the emergency rooms of public hospitals.

As for a dollar-a-pack cigarette tax solving Florida's budget problems, there's no assurance that it would actually yield the amount of revenue that its advocates claim. In other states that have dramatically raised cigarette taxes, the revenue usually has fallen short of the rosy projections.

Why? A steep increase gives smokers a huge incentive to find ways to avoid paying the new tax. Some quit. Others buy their cigarettes out of state or from tax-free sources such as Indian reservations or Internet suppliers.

Such an exorbitant tax also provides an enticing financial incentive for illegal forms of tax avoidance. If the Florida cigarette tax increased by a dollar a pack, for instance, the tax difference between cigarettes bought in Mississippi and Florida would be almost \$12 a carton. So smugglers could travel to Mississippi, load up a vehicle with 500 or so cartons, and return to sell them surreptitiously in Florida, turning a profit of more than \$5,000 per trip.

This scenario is not farfetched, given that several states near Florida have lower cigarette taxes. To counter this criminal activity, then, more tax revenue would have to be devoted to halting the smugglers.

So both the basic rationale for increasing the cigarette tax and the notion that it would produce a large net gain in revenue are flawed. Such a tax that may sound appealing, but it will do little to help Florida's cure its budget woes.

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