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**New Study Shows Raising the Tobacco
Tax Will Not Reap Desired State Revenue**

May lead to other unintended consequences

A new study commissioned by the Wisconsin Petroleum Marketers and Convenience Store Association shows that an additional 75-cent increase to the state excise tax on cigarettes will not generate the funds anticipated and will result in numerous other unintended consequences. The proposed 42% tax increase has the possibility to lead to revenue declines, as seen in other states such as New Jersey where an actual reduction in cigarette tax revenues occurred in the same year as a tax rate increase. Coming on the heels of recent state and federal tax increases, an additional 75 cent tax hike on Wisconsin smokers represents a 308% tax increase in less than 18 months.

Dr. Donna Anderson from the Economics Department at the University of Wisconsin La Crosse and William Keip, President of Keip Government Solutions, reviewed the potential effects of another increase to the state excise tax. "Cigarette excise taxes are regressive in nature and rarely produce the large revenue streams that legislators report to their constituents," said Dr. Anderson. "Sadly, this kind of tax unfairly targets low-income consumers, who are least able to pay. In addition, alternative cheaper sources of cigarettes from the Internet and border states, makes it even more unlikely the desired revenue from the tax will occur."

Specifically, the report cites a number of reasons why a cigarette excise tax should not be revisited by Wisconsin legislators:

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- Revenue projections from the tax will not be met.
- Cigarette excise taxes are an unreliable, declining and unstable funding source and raising the tax is bad public policy.
- Cigarette excise taxes are regressive in nature, targeting low-income consumers who are least able to pay.
- Smokers will turn to border states, the Internet and other outlets, negatively affecting Wisconsin retailers.
- Crime rates will rise along with the tax increase, creating more smuggling and black markets as well as an increase in retail theft.

“This study validates the points we have been making all along from the declining revenue source it represents to the regressive nature of the tax, to an increase in illegal cigarette sales and crime. All these issues affect Wisconsin retailers, businesses selling this legal product, during these already challenging economic times. How much more can one segment of the Wisconsin population be taxed?” asked WPMCA President Matt Hauser.

If passed, the 75-cent increase proposed by the Governor’s Budget Bill would be on top of the \$1-per-pack increase implemented in January 2008 and the 62-cent federal increase that went into effect in April 2009. These recent increases have one-fifth of Wisconsinites paying an additional \$16.20 in cigarette taxes with every carton purchased.

The study was conducted by UW La Crosse Economics Professor Donna M. Anderson and Keip Government Solutions President William D. Keip. Dr. Anderson brings a wealth of experience in state and local government finance, economic analysis of public and private work/family policies. Recognized as an expert source of government tax and budget knowledge for 30 years, Bill Keip has served as State Budget Director in Ohio and his testimony is accepted as expert before state agencies and state legislatures.