NATO

$1.00 Cigarette Tax Increase Will Force Business to Neighboring States

April 4, 2011

Dear Senator:

I am writing to you on behalf of the numerous tobacco stores and convenience stores that are members of the National Association of Tobacco Outlets (NATO) regarding the passage of S.B. 21 that includes a $1.00 per pack cigarette tax increase dedicated for the Capital Project Fund. With the recent 66% increase in the state's income tax rates, the proposed cigarette tax hike will only worsen the tax burden for Illinois residents and result in retailers losing more sales to stores in neighboring Iowa, Missouri, Kentucky and Indiana. Likewise, the State of Illinois will lose cigarette tax and sales tax revenue.

Based on the experience of a number of states that have raised cigarette taxes over the past three years, a significant increase such as $1.00 per pack will very likely result in the State of Illinois collecting considerably less in new cigarette excise tax revenue than projected. The list of states that have experienced serious revenue shortfalls after a large cigarette tax increase include Arizona, Florida, Indiana, Maine, Maryland, Michigan, New Jersey, New York, Ohio, Rhode Island and Tennessee.

One of the primary reasons for this failure to collect projected revenue is the attraction of lower cigarette tax rates in neighboring states. If the $1.00 per pack cigarette tax hike is enacted into law, Illinois residents will be able to save $6.20 per carton of cigarettes in Iowa, $18.10 per carton in Missouri, $13.80 in Kentucky and $9.85 per carton in Indiana. These large tax savings will force many Illinois residents, especially lower income citizens for whom a cigarette tax hike is very regressive, to consider making a cross border trip to any of these adjacent states with lower tax rates to buy cigarettes and other products.

The end result is that family-owned Illinois retail businesses located near the state's borders stand to lose a substantial amount of customer business due to the much lower and more attractive cigarette tax rates in Iowa, Missouri, Kentucky of Indiana. In other words, this kind of excessive tax increase drives economic activity out of Illinois and into adjacent states. Besides this loss of business, another unintended consequence of a large tax increase is the creation of an environment for black market cigarette activity.

Funding the Capital Project Fund with an unstable revenue source like the cigarette tax is not a sound fiscal policy especially when small businesses will also be severely impacted by the higher cigarette tax.

Sincerely,

Thomas A. Briant

Thomas A. Briant, Executive Director

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