



March 28, 2008

Kentucky Taxpayers Oppose Tobacco Tax Hike

Dear Kentucky Leader:

On behalf of the 2,900 Kentucky members of the National Taxpayers Union (NTU), I urge you to reject calls to increase the state's excise tax on tobacco. The Kentucky Senate got it right when it passed a budget that didn't rely on a tobacco tax hike, just as Governor Steve Beshear once had it right when he campaigned on a platform that opposed tax increases.

As you know, there is a long list of reasons to reject calls for tobacco tax hikes. To begin with, tobacco taxes are highly regressive and disproportionately harm working-class residents. According to Congress's Joint Committee on Taxation, more than two-thirds of all federal tobacco taxes come from those earning less than \$40,000 per year (a pattern that also applies to state-level tobacco taxes).

A recent study from NTU demonstrates that high tobacco taxes have negative effects even on non-smokers, as states with low cigarette taxes tend to have lower overall taxes. Kentucky's per capita state and local tax burden is \$3,383, while states with the highest tobacco taxes average \$1,000 more. Elevated tobacco taxes reflect a propensity to tax other types of activities and products, regardless of their positive or negative impact on society. Passing a tobacco tax increase would chip away at Kentucky's low-tax heritage.

Tobacco tax increases also don't prevent future tax hikes. Taxpayers actually face a seven out of 10 chance of seeing another net annual tax hike of some kind within two years of a cigarette tax increase, based on a review of 2000-2008 data. Furthermore, tobacco taxes don't spur economic growth. States adopting a tobacco tax hike in 2003 experienced a growth rate in subsequent years that was 0.6 percent lower than states that didn't. Kentucky's leaders shouldn't worsen the already troubled economic outlook with bad tax policy.

Don't forget that Kentucky's relatively low tobacco tax encourages residents from neighboring states with higher rates (like Ohio, West Virginia, Illinois, and Indiana) to do their shopping at Kentucky stores. While they're picking up a pack of cigarettes, shoppers could also be buying gas, food, and other purchases that help to grow the state's economy. Elected officials shouldn't drive that income away from Kentucky retailers to make up for spending problems.

Tobacco tax hikes have very real fiscal implications for smokers and non-smokers alike, and our 2,900 Kentucky members are asking you to reject a tobacco tax increase.

Sincerely,

Kristina Rasmussen
Director of Government Affairs