

Level the Playing Field

By Barney T. Bishop III

Before the state even looks at raising the cigarette tax, it should turn its attention to those cigarette manufacturers that are not parties to the state's Tobacco Settlement Agreement.

The current proposal in Florida to increase the state cigarette tax by \$1 per pack (from 34 cents to \$1.34) is simply a bad idea. This type of highly-regressive tax increase harms all Floridians, especially in a recession, as well as unfairly targeting adult smokers. And the state already gets over \$1.1 billion every year from the current cigarette tax — not including the recently-increased Federal tax on cigarettes. Right now the average Florida pack-a-day smoker already pays \$579 per year to the federal and state governments and the proposed Florida cigarette tax increase — along with the forthcoming increase in the federal excise tax — will further increase these costs to over \$1,000 a year for the pack-a-day smoker.

In the case of the current state excise tax increase proposal alone, a carton of cigarettes in Florida would become up to \$15.74 more expensive than those sold in neighboring states. There are around 19,000 retailers in Florida that typically sell cigarettes and these sales are an important revenue source for many of these retailers (34.4% of all in-store sales according to the National Association of Convenience Stores).

Consumers often react to a cigarette tax increase by shifting their purchases across state lines or to other sources. The impact of this purchasing shift on retailers becomes even more pronounced when tobacco purchases are bundled with other products, such as gasoline and groceries.

When smokers act on this type of incentive, state tax-paid cigarette sales fall. As a result, a state often collects less revenue than expected from a cigarette tax increase. Of the 57 state cigarette tax increases implemented between 2003 and 2007, only 16 met or exceeded the forecast revenues. In the long term, this type of revenue source will likely continue to under-perform as tax-paid cigarette sales decline. As a result, cigarette taxes realize less and less revenue and taxing authorities may face gaps in funding in the long term.

The arguments on needing a cigarette tax increase to cover smoking-related costs are equally flawed. Advocates of a \$1 increase in Florida's

cigarette tax say that the increase is needed to cover smoking-related costs to the Florida Medicaid Program. The Healthy Florida Alliance, the coalition that includes all of Florida's major health advocacy groups, contends that these costs are \$1.2 billion per year while smokers only contribute \$417 million a year in state excise taxes.

However, this contention is based on two fundamental errors: it ignores other major revenues paid by Florida smokers via the Tobacco Settlement and via sales tax. And all the money that smokers pay the state is matchable with federal Medicaid money. For purposes of determining whether smokers actually do pay their fair share, it is appropriate to assume that all of these smoker-generated revenues go to Medicaid. The numbers then reveal the true story: Florida excise tax \$927 million; Tobacco Settlement \$860 million; sales tax \$604 million — for a total of \$2.4 billion. This apples-to-apples comparison results in the inescapable fact that Florida smokers pay almost twice the \$1.2 billion that proponents identify as smokers' Medicaid costs.

There is a simple, sensible Florida alternative to implement now. Before the state even looks at raising the cigarette tax, it should turn its attention to those cigarette manufacturers that are not parties to the state's Tobacco Settlement Agreement, and who do not have any settlement payment obligations to the State — manufacturers that have effectively gotten a free ride and not provided a dime of the approximately \$5.4 billion Florida received during 1998-2007.

Because of this situation, these manufacturers enjoy a substantial price advantage over the remaining manufacturers, in many cases close to 50 cents per pack. By closing this price gap with a fee of 40 cents, the state could realize nearly \$88 million in additional revenue in a way that will provide a more level playing field for the brands on which settlement payments are already made to Florida.

Florida's leaders should act to eliminate the disparity among brands and ignore calls to raise the cigarette tax because it is poor policy. It's simply the best approach for Florida. ■

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