

## We need 'reform,' not an increased excise tax on cigarettes

WILLIAM F. SHUGHART II / • SPECIAL TO THE CLARION-LEDGER • JANUARY 10, 2009

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Gov. Haley Barbour's "Blue Ribbon" Tax Study Commission endorsed a fairly extensive list of both short-term and longer term changes to Mississippi's tax code. It should come as no surprise, though, that the commission recommended the one thing Gov. Barbour may have wanted from it all along: political cover for increasing the state excise tax on cigarettes.

ADVERTISEMENT Ever since then-Lt. Gov. Amy Tuck proposed swapping a higher excise tax on cigarettes for a lower sales tax on groceries, politicians and media pundits have been scrambling to find a way to raise a tax that, at 18 cents per pack, is described as being "among the lowest in the nation" almost as often as Gov. Barbour is referred to as a "former tobacco lobbyist."

As he is hemmed in by the George H.W. Bush-like pledge of "no new taxes he campaigned on during his first run for governor and is now facing a revenue shortfall as the state and national economies slide into recession, Gov. Barbour would find the commission's final report something of a godsend had he not in fact handpicked the people who wrote it.

So what is not to like? First and foremost, the excise tax on cigarettes is very unfair. Indeed, because cigarette smoking is much more prevalent among individuals at the bottom of the income distribution than among those at the top, the cigarette tax is the most regressive of all taxes - even more regressive than the sales tax. The commission's proposal to raise the excise tax rate to 50 cents per pack, therefore, amounts to a policy of balancing the state budget on the backs of those who are least able to pay.

To its credit, the Tax Study Commission does not attempt to justify a higher excise tax rate in public-health terms. Recommending that additional tobacco tax collections go directly into the General Fund, it avoids common cause with those who argue that, owing to their greater morbidity and mortality, smokers impose an uncompensated burden on the state's health care resources.

Careful studies of the external costs of smoking conclude, however, that smokers already pay their own way at current excise tax rates in every state, including Mississippi. Indeed, the state is more than justly compensated for any such costs when one adds the \$20 million paid into the treasury every year by the major tobacco companies to settle former Attorney General Mike Moore's lawsuit.

But the Commission wants even more. It recommends imposing a new tax on cigarette manufacturers not already paying into the settlement fund. Big Tobacco likes this idea because it handicaps smaller rivals.

Cigarette smoking is in steep decline, falling at a rate of 1 percent to 2 percent per year nationwide. That trend will accelerate if the excise tax is increased, thus continuing to place downward pressure on state tobacco tax revenues, which in Fiscal Year 2007 contributed a paltry \$55,581,801 to a General Fund whose receipts totaled nearly \$4.7 billion.

The state can expect further revenue losses as Mississippi's smokers cross borders to make their purchases in jurisdictions with lower tax rates.

The commission offers no principled reason for raising the state excise tax on cigarettes since there is none. Selective excise taxes represent predatory public finance at its worst. They punish people simply because of their consumption choices. Even more remarkably, the commission's endorsement of discrimination against smokers, along with the gallons of ink that will be spilled over it, is all about a trivial fraction (one-tenth of 1 percent) of total

state tax receipts. Mississippi's tax code needs serious reform, but this one will pass because politics always trumps sound fiscal policy.

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