



New Study: Increased Cigarette Taxes Impact Poor and Small Business the Most Tax Hikes Rarely Meet Projections

4/8/2019 – The Thomas Jefferson Institute for Public Policy today released a study concluding that cigarette tax increases affect low income users and small business sellers the most. The study also demonstrated that tax hikes rarely meet the projections of local government agencies.

The study, *The Impact of Cigarette Tax Increases on Local Government Budgets*, uses data published by local jurisdictions as part of their budget process. This is the third such report issued by the Jefferson Institute. Among its findings –

- 1) Rarely if ever does a jurisdiction meet its tax projections over the years after cigarette taxes are imposed or increased.
- 2) It is most common for the first year that cigarette tax increases produce more income to the county or city – even if the projected revenue is not attained. But those income figures usually decrease in the following years.
- 3) When cigarette taxes are increased, convenience stores and smaller grocery stores see their overall sales on non-tobacco items decrease due to customers traveling to neighboring jurisdictions to buy less expensive cigarettes and, while there, also purchasing other items.

“Raising cigarette taxes is not a ‘cure-all’ for resolving budget problems,” noted Thomas Jefferson Institute Chairman Michael W. Thompson. “These tax increases rarely raise the revenue that local governments project and, as our study shows, it is most often the case that revenue from an increase in cigarette taxes decreases in the years after those taxes are raised.”

“It’s also the case that increased cigarette taxes hit small business convenience stores the hardest,” said Thompson, “sometimes driving those stores out of business or into another county. Cigarette sales drive added purchases and repeat purchases ... and when taxes incentivize buyers to go elsewhere, it is the small business owner of a convenience store that suffers.”

The study, conducted by economists at the Beacon Hill Institute in Boston, Massachusetts, notes that 2014 data from the National Association of Convenience Stores demonstrates that cigarette sales comprise 37.4 percent of an average convenience store’s monthly merchandise sales and 18 percent of an average store’s gross profit.

Using data from more than 3,400 shopping visits to convenience stores, Management Science Associates estimated that tobacco was the fourth most often purchased item, as buyers purchased tobacco on 21 percent of their visits. Tobacco consumers made purchases of more than ten dollars 52 percent of the time compared to 33 percent of the time for non-tobacco consumers, adding gasoline purchases on 52 percent of their visit and packaged beverages on 35 percent of trips. Tobacco consumers also visit convenience stores more regularly: 16 percent of tobacco buyers make daily visits and 55 percent making multiple trips per week.

“Finally,” Thompson noted, “Cigarette taxes have a greater impact the poorest among us ... those trying hardest to make ends meet.”

The study notes that according to regional data from the U.S. Bureau of Labor Statistic’s Consumer Expenditure Survey, while households in the south region earning less than \$10,000 per year spend 5.8 percent of their income on tobacco, households earning more than \$70,000 annually spend only .26 percent of their income on tobacco products.

Increases in cigarette taxes will also disproportionately affect low-income households. The Virginia Department of Health in its recent study, “Virginia Adult Tobacco Survey 2016-2017” shows that fully 53.1% of all smokers make \$30,000 a year or less. A cigarette tax increase hits the lower income segment of society the hardest.

“Raising cigarette taxes is frequently viewed as an “easy financial fix” by local governments,” Thompson concluded. “But those taxes rarely accomplish what they set out to do, hit low-income families the hardest, and badly hurt struggling small business owners providing a service to their communities.”

A copy of the study can be found by [clicking here](#).

-30-

Contact:

Michael W. Thompson
Chairman
M: (703) 608-9447

Stephen D. Haner
Senior Fellow for State and Local Tax Policy
M: (804) 938-4922