

Idaho Cigarette Tax

Problem

Idaho is expected to face a budget deficit in fiscal year 2012 of approximately \$350 million. Idaho House Revenue and Taxation Committee Chairman Dennis Lake (R-Blackfoot) says he wants to increase the state's cigarette tax by more than \$1.50 per pack to help generate more revenue.

The experience of other states shows targeted "sin" taxes such as these seldom succeed in preventing future budget deficits and typically result in additional tax hikes on all taxpayers. Propping up government spending, especially with a narrow and shrinking tax base, creates many problems. Such tax increases typically lead to larger revenue gaps, unduly burdens the poor, and divert attention from necessary spending reforms.

Policy Solution

Idaho's 57 cents per pack cigarette tax is better left right where it is. From a tax competitiveness perspective, the state is in a solid position, since the rate is lower than each of its neighboring states' (Utah's is close at 60 cents per pack). Additionally, the state's budget is not heavily reliant upon this unsustainable revenue source. It would be unwise to destroy a competitive tax advantage such as this, especially considering the current state of Idaho's economy.

Idaho should look at other, more sustainable, ways to balance its budget:

- Eliminate exemptions and subsidies in order to broaden the tax base and lower tax rates.
- Create an Advisory Council on Public-Private Partnerships and begin privatizing non-core functions of government.
- Implement zero-based or performance-based budgeting.
- Cap taxes and expenditures, ideally tying them to inflation and population growth.
- Empower state employees and Medicaid recipients with health savings accounts.

Policy Message

- Point 1. Raising tobacco tax rates does not prevent future tax hikes from affecting all taxpayers.
- Point 2. Hiking Idaho's cigarette tax would ignore the basic principles of sound tax policy and take attention away from the fundamental problems facing the state's budget.
- Point 3. Pinning the hopes of a balanced budget on such a notoriously unreliable and shrinking source of revenue is reckless.
- Point 4. Cigarette taxes unduly burden moderate- and low-income individuals.
- Point 5. Idaho will lose economic activity to neighboring states and the black market if the tax is raised.

Policy Facts

- Fact 1: 41 of 59 state tobacco tax increases between fiscal years 2001 and 2006 were followed by tax hikes in the two-year period after enactment. [National Taxpayers Union](#)¹
- Fact 2: After a 17.5-cent cigarette tax increase, New Jersey *lost* almost \$24 million in revenues from 2007 to 2008. [Budget & Tax News](#)²
- Fact 3: According to the Bureau of Labor Statistics, 95.8 percent of tobacco expenditures are made by consumer units (people spending together) who earn less than \$150,000 a year. [Bureau of Labor Statistics](#)³

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1. *Debunking the "Tax Thee, But Not Me" Myth: Five Reasons Why.* National Taxpayers Union (<http://www.ntu.org/news-and-issues/taxes/excise-tax/debunking-the-e-tax-thee-myth-for-tobacco-taxes.html>)
 2. *New Jersey Cigarette Tax Hike Reduces Revenues Again,* Budget & Tax News. <http://www.budgetandtax-news.org/article/24125>
 3. *Higher income before taxes: Average annual expenditures and characteristics, Consumer Expenditure Survey, 2007* Bureau of Labor Statistics <ftp://ftp.bls.gov/pub/special.requests/ce/standard/2007/higherincome.txt>

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