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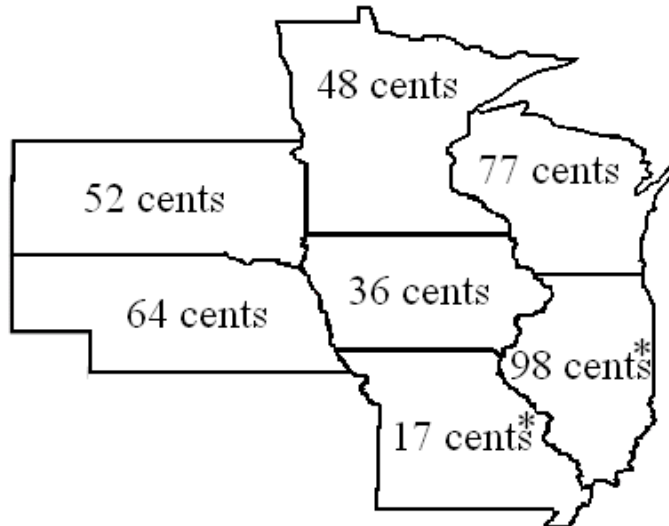
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Issue at a Glance – Raising Iowa's Cigarette Tax

Governor Vilsack has proposed raising the cigarette tax by 80 cents, in order to raise \$129 million in additional revenue to cover the state's Medicaid shortfall. If the state's tax is raised as proposed, Iowa would have a higher tax rate than every one of its bordering states, thus creating an incentive for smokers to buy outside the state.

Current Tax Rates



* Counties and cities may impose an additional tax on a pack of cigarettes in IL, 10 to 15 cents; MO, 4 to 7 cents.

Support from this suggestion comes from New York City which legislated a \$1.42 increase in the city's cigarette tax. The Small Business Survival Committee conducted an econometric analysis on the impact of the tax increase, and polled New York City businesses and consumers. The study found:

- The tax increase decreased cigarette sales by 53%, or 189 million packs annually, with 115 million packs lost to cross border sales, Internet sales, and illegal smuggling.
- The increased tax generated less than half the revenue projected.
- 84% of smokers said that they were less likely to buy cigarettes in the city due to the tax increase.
- 88% of store owners said that the tax increase had hurt sales.
- 83% of store owners noted a loss in profits.

Sources: Federation of Tax Administrators, "State Excise Tax Rates on Cigarettes," <<http://www.taxadmin.org/fta/rate/cigarette.html>>
Small Business Survival Committee, "How New York City's High Tobacco Taxes Hurt Small Business, Taxpayers & Consumers,"
March 5, 2003, <www.sbcs.org>

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