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SALES OF PIPE TOBACCO SURGE AFTER FEDERAL TAX HIKE ON ROLL-YOUR-OWN TOBACCO

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A report by the General Accountability Office (GAO) finds sales of pipe tobacco surged after the federal government imposed a 2,000 percent increase in taxes on roll-your-own tobacco and small cigars.

Forbes reports that the federal excise tax on cigarettes rose 158 percent in 2009, in order to pay for an expansion of the State Children's Health Insurance Program. The government anticipated that smokers—particularly teens—might switch from cigarettes to roll-your-own tobacco and small cigars, which was then taxed at a lower rate. Therefore it raised taxes on roll-your-own tobacco from $1.10 per pound to $24.78 per pound; the tax on small cigars rose from $1.83 per pound to $50.33 per pound.

The tax on pipe tobacco rose at the same rate as the cigarette tax, increasing from $1.10 per pound to $2.83 per pound. Since those changes took effect, roll-your-own tobacco sales have decreased 74 percent, while pipe tobacco sales have increased more than nine-fold, according to the GAO report. "The shift can be mostly attributed to consumers switching from using roll-your-own tobacco to pipe tobacco in roll-your-own cigarettes, rather than to a sudden increase in pipe smoking," the report notes.

Roll-your-own tobacco product manufacturers have rebranded their products as pipe tobacco, but have made few, if any, changes to their product. The GAO report notes that by using pipe tobacco instead of roll-your-own tobacco, customers can save almost $9 per carton in federal excise taxes. When state taxes are taken into account, the savings can be even greater.

According to the GAO, the changes have resulted in between $615 million and $1.1 billion in lost federal tax revenue. The agency recommends that Congress should consider equalizing the tax rates on roll-your-own and pipe tobacco.

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LONG-TERM UNEMPLOYED IN WASHINGTON STATE TO START LOSING BENEFITS NEXT WEEK

By Christine Schofelt
World Socialist Website News Blog
April 20, 2012

As a result of legislation signed by President Obama after a deal with Congressional Republicans last month, unemployed people in the state of Washington will see their long-term unemployment benefits reduced from 99 weeks to 73 weeks.

When federal extended benefits end on April 21, Employment Security officials estimate that approximately 12,500 people in the state of Washington will immediately lose their benefits. More than 11,000 more will exhaust their benefits in the following eight weeks, and 40,000 will run out in the next six months.

An end to extended benefits has been justified by the fact that official unemployment in the state fell to 8.2 percent in February. However, according the unemployment map from Indicators Northwest, only 8 of 39 counties had an unemployment rate of 8.3 percent or less in January.

Many areas in Washington are still experiencing rates of 9 percent or higher. Longview, for example, had a rate of 11.8 percent for February, the last month for which BLS statistics are available. Unemployment in the Kennewick-Pasco-Richland area actually rose to 10.1 percent from January's 9.8 percent. Yakima unemployment stands at 11.9 percent, up from 11.8 percent in January, and Pacific county is at 12.2 percent. Those who have given up looking for work are not even counted in these figures.

The supposed "economic recovery" comes as Washington experienced the third-highest number of March layoffs in the country. Microsoft, a major employer in King county, recently announced hundreds of layoffs in its marketing department, most of which would be in Redmond. Snokist Growers of Yakima announced late last year that they would lay off more than 600 full and part time workers in February.

State employees have also been hit by layoffs, and more are expected in the summer.

Funding for job centers has dried up, with Seattle area centers able to aid less than five percent of those who applied last year.

Though details of the recently-passed state budget proposal have not been released, and Democratic Governor Christine Gregoire can still veto parts of it, it calls for some $300 million in cuts—primarily in the social services. The proposal includes cuts to pensions for future retirees, and $177 million in cuts to the Department of Social and Health Services. It is likely that further cuts will be made, given that the proposal leaves only $320 million in reserves, and a large part of the balancing act relies on a delayed redistribution of $238 million in state sales taxes.

A tax on roll-your-own cigarette machines has been advanced to continue the funding of state food assistance programs. The legislature estimated that this could raise $12 million dollars for the vital programs. The regressive "sin tax" scheme does not guarantee the funds, and the budget does not account for those thousands who will be losing their benefits and be thrown into destitution.

Changes are also proposed for the pensions of state workers hired starting in May 2013, which would penalize early retirement.

Much has been made by Governor Gregoire and the state legislators about the fact that K-12 education will not be cut. However, the legislature did repeal voter-approved Initiative 728 which called for reducing class sizes. Education has been a major issue in all of the legislative sessions, both regular and the three supplemental budget sessions called by Gregoire.

The education budget only dodged further cuts when the state Supreme Court found Washington in violation of the state's Constitution, which mandates that "basic education" be fully funded. The ruling came immediately before a special legislative session in January and touched off a push for charter schools, which have been voted down three times at the ballot box.

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MISSOURI WILL LOSE BUSINESS WITH TOBACCO TAX HIKE

By Amy Lutz
The News-Leader (Springfield, MO)
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While growing up in the small border town of Atchison, Kan., my father, uncles, and family friends frequently visited a small convenience store in Buchanan County. They usually returned with a full gas tank and alcohol or cigarettes. My father and others took advantage of Missouri's low excise tax rates on gas, alcohol, and cigarettes. Sales and tax revenue then were redistributed from Kansas to Missouri. While the convenience store in Missouri remained busy, the Shell station near the bridge in Atchison was often empty.

Missouri benefited at Kansas' expense because of a lower tax rate in a competitive marketplace. In 2009, the QuikTrip on Southwest Boulevard in Kansas City, Kan., moved 100 feet into Missouri to take advantage of the lower excise taxes. However, the situation that prompted this move may soon change.

The Missouri secretary of state gave approval to a coalition of Missourians, led by the American Cancer Society, to circulate a petition proposing an increase in the cigarette tax from 17 cents to 90 cents per pack, a whopping 429 percent increase. If passed, this proposal will stop the heavy cross-over traffic of people coming to Missouri from other states to buy cigarettes.

Business likely will shift in the opposite direction — out of Missouri. Kansas' 79-cent cigarette tax would serve as an appealing alternative to Missouri's potential 90-cent tax. Cigarettes in Missouri would be $2.20 more per carton than in Kansas.

While raising excise taxes might appear to be a simple way to increase revenue, it can backfire and may even cause a loss in net cigarette sales.

Missouri's two largest metropolitan areas border states with much higher cigarette taxes, prompting residents of neighboring Illinois and Kansas to make their purchases here. Missouri's 17-cent tax is certainly attractive to residents of Illinois, where the tax rate is 98 cents, and Kansas, where the rate is 79 cents. Missouri benefits when residents of other states voluntarily make such purchases here.

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GOV. QUINN WANTS MEDICAID CUTS, $1-PER-PACK CIGARETTE TAX HIKE

By Dave McKinney
Chicago Sun-Times (IL)
April 20, 2012

Smokers would have to fork over another $1 per pack to the state as part of a plan Gov. Pat Quinn pushed Thursday to close a $2.7 billion Medicaid gap.

The governor also proposed cutting health-care eligibility for more than 215,000 poor Illinoisans and decreasing rates the state pays to hospitals, clinics and other Medicaid providers by $675 million.

“I think members of the General Assembly may not be wildly excited about this plan, but it’s necessary,” Quinn said, describing the state’s Medicaid program as being “on the brink of collapse.”

Besides pushing the cigarette hike, Quinn proposed abolishing one of ex-Gov. Rod Blagojevich’s signature health-care initiatives, the Illinois Cares Rx program that serves 180,000 clients, and tightening eligibility for the Family Care program, affecting more than 26,000 people. More than 9,100 adults receiving general assistance also would lose Medicaid benefits under Quinn’s plan.

“These are difficult changes. If we don’t make these changes, we won’t have a system at all,” the governor said.

But Quinn’s bid to raise the 98-cent-a-pack cigarette tax by $1 — a move that would raise $337 million and make the state eligible for that much in federal matching dollars — that faces the greatest opposition.

In 2010 and again last year, the state Senate passed a cigarette tax increase only to see the initiative die in the House amid heavy lobbying from the tobacco industry and opposition from Republicans.

While Quinn pointed to the health benefits of raising cigarette taxes and noted the tax was raised five times under three earlier GOP governors, Republicans used the proposed tax increase as a main rallying point against Quinn’s plan.

“Because something was a good idea yesterday or last year or last decade doesn’t necessarily make it a good idea now,” said state Sen. Dale Righter (R-Mattoon), a member of a task force Quinn convened earlier this year to come up with ways to scale back Medicaid — a task on which the panel remains deadlocked.

“I’m pretty certain none of those cigarette taxes were passed a little over a year after a 67-percent increase in folks’ income taxes,” Righter said, referring to the cigarette-tax increases Quinn cited that passed under GOP governors.

Medicaid, which provides health care to 2.7 million poor Illinoisans, has been a burgeoning pressure on the state budget, accounting for 39 percent of overall spending.

This year alone, the state will be left with $1.9 billion in unpaid Medicaid bills, an amount that the fiscal watchdog group, the Civic Federation, forecast could reach $21 billion in five years.

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