



# FACT SHEET

South Carolina Policy Council

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## **Cigarette Tax: General Assembly Votes to Kill 4,100 Jobs**

With the House and Senate voting to override the governor's veto of a 50-cent cigarette tax increase, it's worthwhile to [revisit the reasons](#) why this tax increase is going to cost jobs and hurt South Carolina's economy.

As we wrote before session began, legislators were [bound to consider raising the cigarette tax](#) – because it is perceived as a politically safe, targeted tax that most consumers won't notice.

Indeed, the House passed a 50-cent tax increase last year: [H 3584](#). That bill stalled because the House wanted to use the new revenue to subsidize the purchase of private health insurance plans whereas the Senate wanted to use the money on Medicaid.

In an attempt to force the issue, the House passed a 30-cent tax increase as part of its budget (proviso 90.14). In response, the Senate passed H 3584, thus raising the tax by 50 cents, instead of 30 cents. The House's health care initiatives were also dropped from the bill.

Here is what you need to do know about this tax increase:

### **This tax increase ... is a tax increase.**

Some legislators have sought to conceal the nature of this tax increase by calling it a "user fee." But as the [Policy Council has noted](#), excise taxes are not user fees – they are taxes. The South Carolina constitution defines a user fee as a "charge required to be paid in return for a particular government service or program." That is not the case here.

### **This tax increase will cost jobs.**

Economists at the [Beacon Hill Institute have found](#) this tax increase will cost the S.C. economy 4,100 jobs. The tax increase will also cost the state's economy \$233 million – far outweighing any gains in tax revenue.

### **This tax increase will hurt small retailers.**

The retail sector will be the hardest hit by this tax increase: suffering 1,374 job losses and a \$2.94 million reduction in new investment. These losses are a result of declining cigarette sales as well as lost sales of other items sold by retailers. The job losses could be expected to occur over the next year and would be cumulative.

### **This tax increase is regressive and will hurt low-income taxpayers most.**

[Smokers are on average poorer](#) than other groups of taxpayers. Thus, cigarette taxes are a regressive means of raising revenue.

**This tax increase will hurt border counties.**

While South Carolina's low cigarette tax has long attracted smokers from [other states](#), that will no longer be the case. Increasing the tax to 57 cents will place South Carolina's rate above that of North Carolina (45 cents); Georgia (37 cents); Virginia (30 cents); and several other states.

**This tax increase is bad fiscal policy.**

As Governor Sanford's veto pointed out, "The reason we're facing these budget problems in the first place isn't because South Carolinians are taxed too little; it's largely because government spends too much." This tax is just another means of supporting the [General Assembly's addiction to high spending](#).

**This tax increase is not just for Medicaid.**

While \$125 million of the new cigarette tax revenue will go to Medicaid, additional funds are also being funneled to the Medical University of South Carolina Hollings Cancer Center for research (\$5 million); the Smoking Prevention and Cessation Trust Fund (\$5 million); and agricultural marketing (\$1 million).

As the governor wrote in his veto message, this cigarette tax increase will not solve the health care funding crisis in South Carolina. In fact, the Office of State Budget concludes that revenue from the tax increase will fall short of covering Medicaid growth within 2 years. Recent news from the Congressional Budget Office indicating that the [Obama health plan will cost \\$115 billion](#) more than initially estimated may increase state costs even more.

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