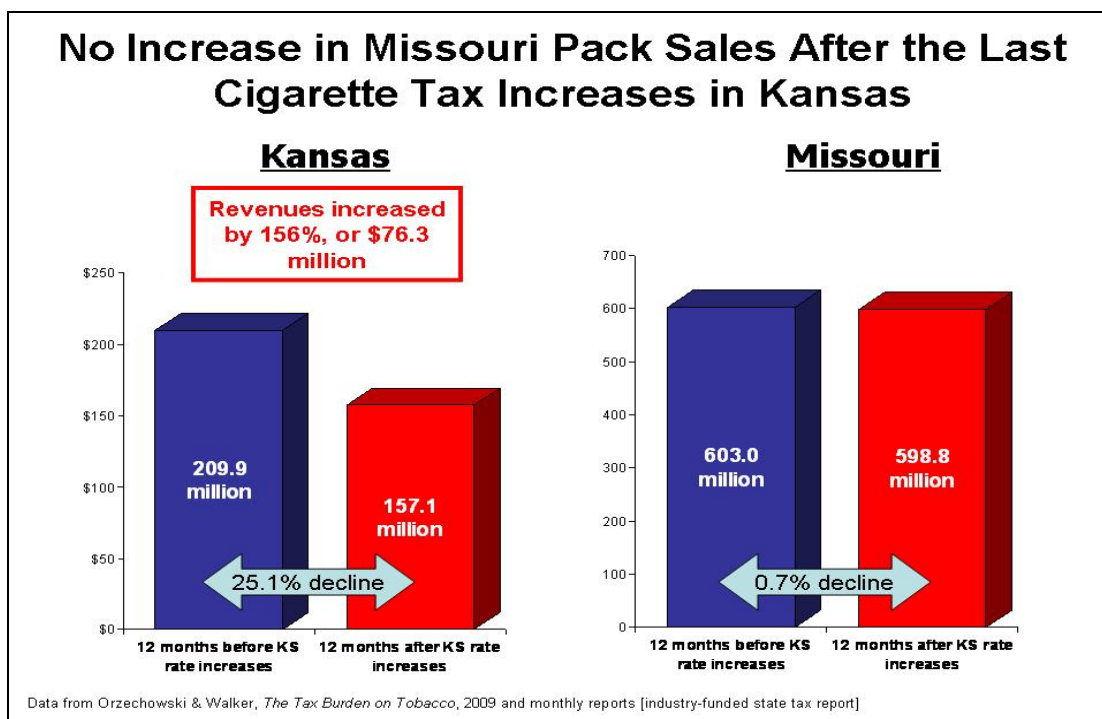


WHAT HAPPENED LAST TIME KANSAS INCREASED ITS CIGARETTE TAX: DID MANY SMOKERS GO TO MISSOURI TO GET LOWER-TAXED CIGARETTES?

No!

When Kansas last increased its cigarette tax in July 2002 and January 2003 by a total of 55-cents, naysayers argued that the state would not get any significant amount of new revenue because many smokers would evade the new 79-cent per pack tax in Kansas by going to Missouri, which has only a 17-cent per pack tax. But that didn't happen.

If Kansas smokers went to Missouri to buy cheaper cigarettes after the last Kansas cigarette tax increase, Missouri pack sales would have gone up. But in the year after the Kansas tax increases, there was no increase in Missouri pack sales at all. In fact, annual pack sales in Missouri declined by 4.2 million packs compared to the year before the Kansas tax increases. At the same time, Kansas's pack sales dropped by 52.8 million packs, largely because of state smoking declines (from 2001 to 2004, the number of adult smokers dropped by 49,000). But because Kansas was receiving 55¢ more per pack, the state's annual cigarette tax revenues still increased by \$76 million.



A new \$1 per pack cigarette tax increase in Kansas would increase the tax and price difference between packs sold in Kansas and Missouri. But, as shown above, Kansas smokers have not shown any strong inclination to go to Missouri for lower-taxed cigarettes. Indeed, many smokers who initially try to save money by making cross-border purchases soon tire of the extra time and trouble and return to the convenience of buying their cigarettes by the pack at nearby in-state stores (and paying the full state tax). Moreover, the experiences of all the other states that have increased their cigarette taxes make it clear that Kansas will still obtain large amounts of net new revenue—despite any smoking declines, cross-border or Internet purchases, or other tax evasion.

To be conservative, the projections that Kansas will obtain more than \$70 million in net new revenue from a \$1 rate increase assume that state pack sales will go down by roughly 12.6 million because of cross-border purchases and other tax evasion. But even if the state lost twice that many pack sales and tax revenues to cross border sales and tax evasion, the state would still receive more than \$55 million in net new revenue.