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## Your Letter for Everything Lars. Exclusive Commentary, News, & Opinion

A Weekly Newsletter

7 February 2009

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Lars Turns 50....



### The Wages of Sin Taxes



People who indulge in unhealthy or unpopular products are an easy target for bureaucrats eager to pocket more revenue. They're an even easier target in today's economic downturn, as dwindling state budgets force politicians to get creative about finding new sources of funding. (Unfortunately, they're rarely so creative about finding ways to cut spending.)

The year began with a significant hike in federal tobacco taxes to fund SCHIP, the State Children's Health Insurance Program. Providing children's health care is not a hard sell under any circumstances, but doing so by taxing smokers guaranteed that the bill would sail through Congress and win Obama's signature. Cigarette smokers will soon pay \$1 per pack in federal taxes, up from 39 cents. The cigar tax cap has been raised from 5 cents a cigar to a little over 40 cents. Roll your own tobacco is hit hardest, jumping from a about \$1 per pound to nearly 25 bucks.

These new taxes are bad news for smokers but they're even worse news for state governments. Since SCHIP's taxes will reduce cigarette consumption, states will be deprived of the tobacco revenue they've come to rely on. They will have to find new sources of tax money by either raising tobacco taxes even higher or moving on to other targets. Which will they choose? Probably both.

Arkansas doubled its cigarette tax on March 1. Michigan may double its tax on all tobacco products except cigarettes. Mississippi, Oregon, Ohio, and North Carolina are contemplating hikes of their own.

Oregon is leading the way on alcohol with a proposal to take its beer tax from one of the lowest in the nation to by far the highest. Idaho has followed suit with its own proposal. Even Kentucky, home to tobacco fields and bourbon distilleries, is set to increase taxes on cigarettes, booze, beer, and wine.

And then there's the so-called "skin taxes." If sex sells, why not tax it? Lawmakers in Washington, Tennessee, California, and elsewhere have toyed with the idea of taxing pornography, escort services, and strip clubs.

But when it comes to new taxes, no one can beat New York. Governor David Paterson recently proposed 137 new and raised taxes. Among the items on his hit list are beer and wine, non-diet sodas, cigars, and even music downloads.

Even PETA is getting in on the act. They suggest that states slap a ten cent sales tax on every pound of meat.

The economic downturn gives every interest group a chance to tax the things they find sinful. As state budgets slip into the red, we'll have to remain ever vigilant against the nannies who will use fiscal woes as an excuse to pick our pockets.

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Let's start with the most frequently asked question "what does Lars smoke?" Lars enjoys full-bodied, full flavor cigars, mostly in the Maduro wrapper. I have made several recommendations over the years, always with the caveat that is you don't like them we will exchange them. Lars has never brought back any cigars.

The new SCHIP legislation will increase the price of your cigars between forty cents and a dollar per cigar. Every retailer I know began reducing inventory when President Obama was elected. All tobacco retailers must pay a floor tax on all other tobacco products in our possession on March 31, 2009. A floor tax is the difference between the old tax we've already paid and the new tax rate. This time the floor tax does not include premium cigars. It does, however, include all other tobacco products.

Every state is losing revenue as retailers and distributors reduce their inventory in anticipation of the floor tax. Consumers will adjust to the new tax rates, but it will cause a decrease in revenue that will never be recovered. The federal government will have to take the floor taxes collected and send it out to all fifty states to shore up their existing health care programs. Since this is not what SCHIP was intended to do, I believe the revenue gain from the SCHIP taxation will be zero.

I spent the past few days writing our legislative representatives to protest the proposed beer tax. The smoking ban has hurt the beer industry and bars too. This state can ill afford to lose any more jobs from any sector of the economy. When will the state learn that "sin taxes" cannot and should not be the answer to every revenue shortfall?

Advocates of the beer tax and the tobacco taxes have all been granted dedicated revenue streams. This means that the tax revenue collected used to flow into the General Fund. The General Fund pays for all the programs the state is mandated to provide: education, public safety and transportation. In the good times, lawmakers have given away this revenue various special interests. However, once a program has acquired a dedicated revenue stream, it becomes a sacred cow. It lacks accountability both for effectiveness and efficiency, all the while often expanding its reach beyond legislative intent.

As a program expands it needs more and more revenue to support its ever growing reach. I hope the 2009 legislature will come

to realize it cannot be business as usual. Government cannot afford to fund charities. Government has schools to fund, roads to build, and highways to patrol. These most important programs must be fully funded.

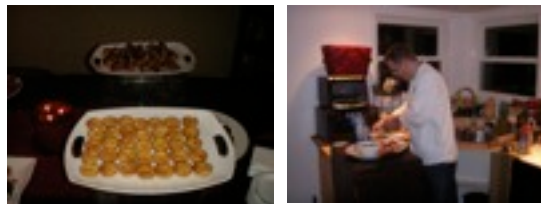
Here at Cascade Cigar we are allowed to smoke in our shop and lounge, but you can no longer have a adult beverage with your cigar. What's up with that? I don't know. I do not understand the legislative intent behind that twist in the law. Since January 1st it has cost four staff members, make that four friends, their jobs. These hard working former employees are now drawing unemployment instead of being gainfully employed.

Everyone needs to be writing to our elected leaders. Our voices and our votes are more powerful than any special interest. We, the people, own the one thing special interest cannot buy, our votes. Write. Demand answers. Make your voices heard.

**Special thank to Jan from Cascade Cigar & Tobacco for her contribution.**



**Cascade Cigar & Tobacco**

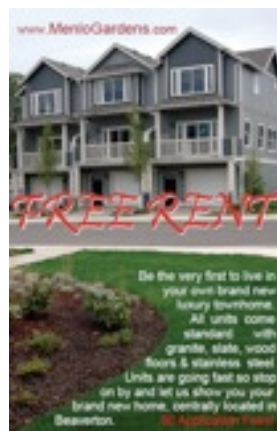


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## A special note on new regulations regarding COBRA..

I had a business owner say “so what happens to the contractor who used to employ 50 people.” He is now down to five people (construction is gone) and the 45 people he laid off have to be offered 65 percent cobra subsidy going back six months (that’s right, you have to go back and offer it retroactively to folks who have been laid off). Where is that subsidy supposed to come from?



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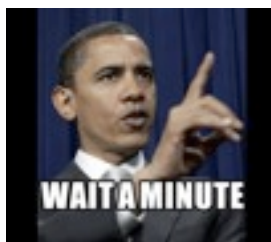
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Please e-mail us with comments, suggestions, or ideas.

## Special Thanks To

Chuck Wiese Jacob Grier, Jan, Contributors  
Barack Hussein Obama, improving the image of  
Conservatives since 2008



The Portland City Council, I couldn't come up  
with this stuff on by myself..

Governor Kulongoski, helping to make talk  
radio great in Oregon

Sam Adams...making sure young interns are  
welcome at City Hall

Randy Leonard, for your continued work on  
keeping Biodiesel local. 7/Gallon? Why not  
spend more?

Tom Daschle, he doesn't feel it is necessary to  
pay his taxes.

Nancy Pelosi, who's President her or Obama?

Hilary Clinton, Secretary of State? Isn't that  
like coming in 5th place?

Joe Biden, memory getting better?



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