

Phila. smokers and drinkers get ready for (tax) hit

By Jeff Gammage and Suzette Parmley, Inquirer Staff Writers

POSTED: May 20, 2013

The destitute Philadelphia schools are counting on Kevin Sosinavage, and others like him, to come to the rescue by continuing to do what they're doing: smoking and drinking.

Sosinavage, 45, sat at the bar at SugarHouse Casino on Friday, sucking on a Marlboro and sipping from a bottle of Heineken, both of which would be heavily taxed under Mayor Nutter's plan to avoid doomsday for the school system.

"I wouldn't mind the tax increase if my salary increased as much, but that's not the case," said Sosinavage, a warehouse worker who lives in Northeast Philadelphia.

The city liquor-by-the-drink tax would grow from 10 percent to 15 percent under the proposal, while a new \$2 levy on cigarettes would raise the price of an average pack from \$5.85 to \$7.85, city officials said.

The likely impact?

The booze tax would not be onerous to drinkers and diners, though nobody who runs a restaurant or eats at one likes higher prices, one expert said. But the effect of the cigarette tax could be profound in positive ways, particularly for young people and not just because their schools face a \$304 million budget hole.

"We have this tension between our freedom to choose, and a healthy society, and our need to generate revenue," said Cait Lambertson, who studies taxes and consumer behavior at the University of Pittsburgh. "But particularly with a cigarette tax, people see that as a win-win."

People in Philadelphia smoke at some of the highest rates in the country.

In 2010-11, 22 percent of Philadelphia adults were smokers, according to the federal Centers for Disease Control and Prevention. And that was an improvement. In 2007, 25 percent of adults smoked, placing Philadelphia first among American cities, according to the CDC and other agencies. Chicago was next at 20 percent, followed by Phoenix at 19.8 percent and San Antonio at 17.5 percent.

Today the city has more tobacco retailers per 1,000 youths than any other city except Washington. And fines are not stopping sales to underage smokers.

The effect of what economists call the "just-noticeable difference" can be intense on younger people, said Lambertson, who teaches business administration in the Katz Graduate School of Business. That is the point at which consumers notice that the price of an item has gone up - and subsequently may decide not to buy.

For consumers, the just-noticeable difference is between 20 percent and 25 percent, Lamberton said. The \$2 Philadelphia tax would increase the cost of a pack of cigarettes 34 percent.

That would be noticeable to young people, who generally have less money to spend and are less addicted. Studies of increases in the federal cigarette tax - currently \$1.01 per pack - show that higher prices caused decreases in consumption among younger smokers, she said.

For older smokers, for big companies that make cigarettes, and for retailers that sell cigarettes, the tax is bad news, Lamberton said.

On the other hand, she predicted that a 5 percent increase on alcoholic drinks would not "create the kind of enormous drop in consumption that restaurants and bars are worried about."

In 1994, when the administration of Gov. Ed Rendell imposed the 10 percent tax, detractors said it would destroy the restaurant industry. In fact, dining out in Philadelphia has undergone a renaissance.

Of course, people who make their living in the food-and-beverage industry strongly disagree with the plan.

"The proposal is basically to make a ridiculous tax more ridiculous," said a frustrated John Longacre, president of the Licensed Beverage Association of Philadelphia and owner of the South Philadelphia Tap Room. "Raising the drink tax is yet another quick fix. . . . Every time the city can't run itself efficiently, they raise taxes on their businesses and their residents.

"Are you going to notice it per drink? No," he said. "But you are going to notice that drinking in Philadelphia on the whole is more expensive than in one of our suburban counterparts."

In announcing the plan Wednesday, Nutter said he was not worried that a cigarette tax would harm local businesses by sending smokers to buy elsewhere. "I don't know that someone is going to flee to the suburbs to get a pack of cigarettes," he said.

In his youth, Nutter said, he spent six years working at Sneiderman's Pharmacy at 56th Street and Larchwood Avenue in West Philadelphia. Back then, cigarettes were 35 cents a pack. Over time the cost rose to \$1, then \$2, then \$3, and now \$6 - "and people are still buying cigarettes," he said.

The city has no cigarette tax. Nationally, local cigarette taxes are rare, imposed by only about 430 cities, counties, and towns, and generating about \$500 million a year in revenue, according to the American Lung Association.

New York City has the highest tax of any city, at \$1.50 per pack, followed by Chicago at 68 cents. (That's in addition to the Cook County, Ill., tax of \$3 per

pack.)

"Increasing taxes on cigarettes is a winning solution for everybody," said Deborah Brown, chief executive of the American Lung Association of the Mid-Atlantic. Fewer young people will start smoking, and fewer children and pregnant women will be exposed to the dangers of secondhand smoke, she said.

Nutter said the taxes would raise \$95 million for schools in 2013-14 and \$135 million in the second year. The money would benefit students in district schools and at the 84 taxpayer-funded charter schools, he said. The mayor also pledged to improve city tax collections.

Faced with a massive budget gap in the next fiscal year, Superintendent William R. Hite Jr. wants \$60 million in new funds from the city and \$120 million from the state. The district hopes to make up the rest through concessions from the teachers' union. Without new funding, Hite says, schools will lose books, counselors, librarians or secretaries, and athletics, art, and music will disappear.

Nutter said \$2 million from the cigarette tax - estimated to raise \$87 million in its first full year - would go to support the Health Department's smoking-cessation program. Each year in Philadelphia, 2,100 people die from tobacco use, and 40,000 suffer related asthma, cancer, and heart disease.

The \$87 million collected in 2014-15 would drop to \$77 million over five years as cigarette sales declined. The liquor tax is estimated to bring in \$22 million annually with no predicted fall in consumption.

The drink tax would begin July 1 and the cigarette tax on Jan. 1, but both would first require approval by City Council and the passage of enabling legislation in Harrisburg.

Sue Bartow, for one, says she is unwilling to pay more. Between swigs from a bottle of Corona and puffs from a USA Blue 100 at SugarHouse, Bartow, 62, of Bristol, said she was prepared to drive all the way to Virginia to get lower prices.

"Hell, I'm ready to move down there because cigarettes are so much cheaper," she said. "Everyone has the right to smoke and drink. What happened to freedom and rights?"

http://articles.philly.com/2013-05-20/news/39371729_1_cigarette-tax-tax-increase-smokers