



900 Percent Increase to Smokers' Taxes Detrimental to Working Families, Farmers and Business

WINSTON-SALEM, N.C. – Feb. 23, 2005 -- An unprecedented 900 percent increase in a tax on predominantly lower- and moderate-income North Carolinians. That is what Gov. Mike Easley promised in his State of the State address earlier this week and in his budget released today that calls for an increase of 45 cents a pack to the smoker-paid state cigarette excise tax.

"To single out smokers to bear the burden of a budget deficit is simply preposterous," says Brennan Dawson, senior vice president, government relations, for R.J. Reynolds Tobacco Company. "It's also important to note that North Carolina is a unique recipient of tobacco revenue from the strong cigarette manufacturing presence that generates corporate and payroll taxes for the state."

Despite the fact that in fiscal year 2004, adult smokers generated nearly \$298 million for the state in the form of taxes and settlement payments, Gov. Easley is calling for a tax increase on those who can least afford it. The median household income for smokers in the state is \$29,424 – compared with \$38,042 for non-smokers – and 45 percent of North Carolina smokers have household incomes less than \$25,000.

A cigarette excise tax increase would be detrimental to the state's farmers as well. Growers of flue-cured tobacco, for example, would have as much as one million pounds put at risk.

And it doesn't stop there.

It's estimated that the total gross-profit loss to North Carolina retailers and wholesalers would be nearly \$112 million, with as many as 1,600 retail and wholesale jobs being displaced.

"More revenue is received in the state from cigarette manufacturing than the sale of cigarettes," Dawson notes. "Today, before adding so much as a penny, the state already collects more than 60 cents from every pack of cigarettes sold."

Dawson adds: "State after state is finding that unreasonably high cigarette excise taxes encourage smokers to avoid paying taxes by purchasing cigarettes on the Internet, at Indian reservations or from bordering states where taxes are lower. The result is lower revenues than anticipated, and the tax increase undermines what could otherwise be a reliable long-term source of funding.

"The bottom line is, a lack of taxes on smokers did not cause the state's budget problems, and excessive taxes on smokers will not solve them."

[R.J. Reynolds Tobacco Company](#) (R.J. Reynolds) is an indirect wholly owned subsidiary of

[Reynolds American Inc.](#) (NYSE: RAI). R.J. Reynolds is the second-largest tobacco company in the United States, manufacturing about one of every three cigarettes sold in the United States. R.J. Reynolds' product line includes five of the nation's 10 best-selling cigarette brands: Camel, Winston, Kool, Salem and Doral. For more information about R.J. Reynolds, visit the company's Web site at www.RJRT.com.

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