DAILY NEWS

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Mike's cig tax would burn bodegas

By SUNG SOO KIM

Mayor Bloomberg has argued frequently and persuasively that tax increases are bad for the city, that they hurt the business climate and encourage companies to find friendlier places to operate.

At the same time, with no apparent trace of irony, he has called for a confiscatory rise in the city's cigarette tax — an increase to a whopping $1.50 a pack from the current 8 cents.

The mayor was right the first time. This tax hike would have a devastating effect on small stores, groceries and bodegas throughout the city as customers turn elsewhere for their cigarettes. The impact would ripple through neighborhood economies already reeling in the recessionary aftermath of 9/11.

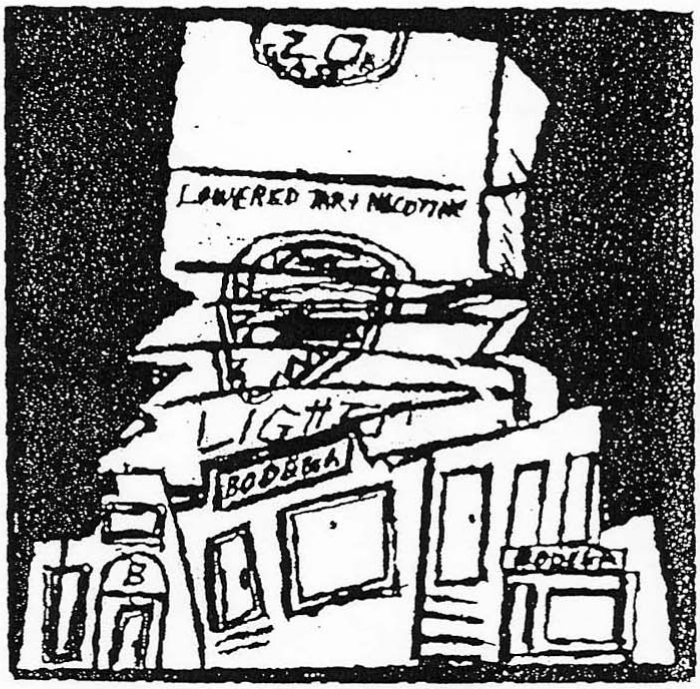
Bloomberg has taken great pains to defend his proposal as not really a tax increase, but a public health measure. According to his press spokesman, "The mayor has said he would love to see the revenue on this tax go flat, to zero." In other words, it's designed to discourage people, especially kids, from smoking.

How believable is this position? Well, just last week, the mayor took the $186 million the city received from the tobacco settlement — money intended to fund smoking prevention programs — and diverted the dollars while eliminating the programs.

It would be hard, however, for storeowners to argue that a reduction in smoking is not a desirable goal. But no one, not even the mayor, believes this really will happen, which is why Bloomberg is counting on the $249 million in revenue from the tax to help him close a budget gap of nearly $5 billion.

But if the tax wouldn't significantly reduce smoking, it would create a dramatic change in buying habits. Experience has shown repeatedly that major increases in tobacco taxes drive consumers into lower-tax or no-tax environments to satisfy their needs.

Check the cigarette business being done on Indian reservations, and look at the sales at border stores in states with lower taxes on tobacco than their neighbors. Adding impetus to this phenomenon is the Internet. At last look, more than 200 sites advertised tobacco products at low-tax or no-tax prices.



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The sale of tobacco products is a reliable revenue producer for a range of small stores, especially in low-income communities. In a local bodega or greengrocer, the sale of cigarettes can constitute as much as 20% of the gross receipts.

But it's more than that. The customers who come into local stores aren't just buying cigarettes. While they're there, they purchase milk, bread, beer, candy and a range of other products. Not all those sales would be lost, but many would if customers drove to another state or went online for their cigarettes.

If the mayor is denied the cigarette tax hike he seeks, won't that make it harder than ever for him to close the city's huge budget gap? In recognition of this problem, the small-business community is looking into ways to cover the loss through an amnesty program for sanitation and environmental fines.

Based on a successful program during the Dinkins administration, we believe this would more than cover the loss of revenue and provide a far more predictable revenue stream than the mayor's unreliable, deeply damaging cigarette tax.

Kim is president of the Korean-American Small Business Service Center of New York.