Tobacco Taxes

States can raise hundreds of millions of dollars in new revenue, and save thousands of lives, by increasing tobacco taxes.

Tobacco Taxes

Summary

- **States can raise hundreds of millions of dollars in new revenue by increasing tobacco taxes.**
- **Higher tobacco taxes save thousands of lives by reducing teen smoking, as well as adult tobacco use.**
- **The experience of states that have increased tobacco taxes shows that cigarette smuggling is only a minor problem.**
- **Americans strongly support increasing state tobacco taxes.**
- **In 2002 and 2003, 31 states increased their tobacco taxes.**

States can raise hundreds of millions of dollars in new revenue by increasing tobacco taxes.

Every state that has significantly raised its cigarette tax rate has experienced a major increase in state revenue. California's 50-cent per pack increase raises more than $500 million a year. Annual tobacco tax revenues have increased by $68 million in Maryland, $167 million in New Jersey, and $341 million in Michigan.[1] Early reports from New York City (which increased its local cigarette tax from 8 cents to $1.50 per pack), Ohio (from 24 to 50 cents), Massachusetts (from 76 cents to $1.51), and other states that increased their cigarette tax in 2002 show substantial revenue increases that are often larger than expected.[2]

Higher tobacco taxes save thousands of lives by reducing teen smoking, as well as adult tobacco use.

Research has consistently documented that cigarette price increases reduce smoking, especially among young people. Internal tobacco industry documents show that, since at least the early 1980s, companies have fully understood that tax increases reduce their sales, especially among youth, and they regularly admit this in their filings with the U.S. Securities and Exchange Commission. Indeed, the reason cigarette companies oppose state cigarette tax increases is precisely because they decrease pack sales.

The experience of states that have increased tobacco taxes shows that cigarette smuggling is only a minor problem.

Smuggling and tax avoidance are relatively insignificant problems, according to all major studies. Recent studies have found that cigarette smuggling, cross-border cigarette purchases, and Internet sales account for five to ten percent of all cigarette sales, at most.[3] Similarly, a California study found that after the state's 50-cent cigarette tax increase went into effect in 1999, no more than five percent of all continuing smokers were avoiding the state's cigarette tax.[4] It is also worth noting that any real or imagined problems with smuggling and tax avoidance after New York's 55-cent tax increase in 2000 were not significant enough to stop the state from increasing its cigarette tax again, by 39 cents in 2002, to $1.50 per pack—or to prevent New York City from increasing its supplementary local cigarette tax from eight cents to $1.50 per pack the same year.

Americans strongly support increasing state tobacco taxes.

Poll after poll has shown strong support for increased tobacco taxes in every region of the country. More than 30 different state polls conducted across the country in 2002 and 2003 have found that Americans favor large tobacco tax increases—raising cigarette taxes by 50 or 75 cents per pack. Even in the tobacco-growing state of Kentucky, 60 percent of voters favored a 75-cent per pack tax increase. In most states, voters favor the tax increase by at least a two-to-one margin. Every poll in every state found at least majority support among Democrats, Republicans and Independents. For example, in Nebraska, 67 percent of Democrats and 70 percent of Republicans favored a tax increase of 50 cents per pack. And in nearly every state where the question was asked, a large majority preferred increasing state tobacco taxes over any other measure that would significantly increase taxes or cut programs.

Recent State Experiences with Cigarette Tax Increases[6]

State	Date	Tax Increase Amount (per pack)	New State Tax (per pack)	State Consumption Decline	Revenue Increase (percent)	New Annual Revenue (millions)
Alaska	10/97	71¢	$1.00	-13.5%	+202%	$28.7
California	1/99	50¢	87¢	-18.9%	+90.7%	$555.4
Hawaii	7/98	20¢	$1.00	-8.1%	+19.9%	$6.4
Illinois	12/97	14¢	58¢	-8.9%	+19.0%	$77.4
Maine	11/97	37¢	74¢	-15.5%	+66.7%	$30.8
Maryland	7/99	30¢	66¢	-16.3%	+52.5%	$68.0
Massachusetts	10/96	25¢	76¢	-14.3%	+28.0%	$64.1
Michigan	5/94	50¢	75¢	-20.8%	+139.9%	$341.0
New Hampshire	7/99	15¢	52¢	-10.4%	+27.1%	$19.6
New Jersey	1/98	40¢	80¢	-16.8%	+68.5%	$166.6
New York	3/00	55¢	$1.11	-20.2%	+57.4%	$365.4
Oregon	2/97	30¢	68¢	-8.3%	+77.0%	$79.8
Rhode Island	7/97	10¢	71¢	-1.5%	+16.2%	$8.6
South Dakota	7/95	10¢	33¢	-5.6%	+40.4%	$6.1
Utah	7/97	25¢	51.5¢	-25.7%	+71.0%	$17.6
Vermont	7/95	24¢	44¢	-16.3%	+84.2%	$11.7
Wisconsin	11/97	15¢	59¢	-6.5%	+25.8%	$52.9

In 2002 and 2003, 31 states increased their tobacco taxes.

Increasing tobacco taxes is one of the most popular revenue enhancing measures in state legislatures across the nation. Since the beginning of 2002, the average state cigarette tax has increased from 43 to 73 cents per pack. Twenty-eight state legislatures (AR, CT, DE, GA, HI, ID, IL, IN, KS, LA, MD, MA, MI, MT, NE, NV, NJ, NM, NY, OH, PA, RI, SD, TN, UT, VT, WV, WY) raised cigarette taxes. Also, Arizona, Oregon and Washington increased tobacco taxes by statewide referendum. Most of the tax increases were quite large—40 cents or more per pack. Seven states (AZ, CT, IN, KS, OH, PA, VT) more than doubled their tobacco taxes. Tennessee raised its tax for the first time in 33 years. Tobacco taxes now range from Virginia's 2.5 cents per pack to New Jersey's $2.05. Sixteen state tobacco taxes are $1 per pack or more.[5]

This policy summary relies in large part on information from the Campaign for Tobacco-Free Kids.

Endnotes

[1] Orzechowski and Walker, "Tax Burden on Tobacco," 2003.

[2] See, e.g., Michael Cooper, "Cigarette Tax, Highest in Nation, Cuts Sales in City," *New York Times,* August 6, 2002; Paul Hampel, "Illinois Cigarette Tax Hike Cuts Sales But Not Revenue, *St. Louis Post-Dispatch,* August 9, 2002; "Mass. New 75-Cent Cigarette Tax Brings in $38.5 Million in August," *Associated Press,* September 11, 2002; Andrew Welsh-Huggins, "Cigarette Tax Raises More Money Than Expected," *Associated Press,* September 20, 2002.

[3] Matthew Farelly, "State Cigarette Excise Taxes: Implications for Revenue and Tax Evasion," RTI International, 2003; Yurekli and Zhang, "The Impact of Clean Indoor-Air Laws and Cigarette Smuggling on Demand for Cigarettes: An Empirical Model," *Health Economics,* 2000.

[4] Sherry Emery, "Was there significant tax evasion after the 1999 50 cent per pack cigarette tax increase in California?," *Tobacco Control,* June 2002.

[5] American Lung Association, "State Legislated Actions on Tobacco Issues," August 2002.

[6] Orzechowski and Walker, "Tax Burden on Tobacco," 2002. There is not yet sufficient data to calculate revenue changes for the numerous tobacco tax increases in 2002 and 2003, but preliminary data demonstrates that the trends in this chart have continued.

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For more information...

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The American Lung Association
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www.lungusa.org/tobacco

American Cancer Society
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Tobacco Tax Revenue Act

SECTION 1. SHORT TITLE

This Act shall be called the "Tobacco Tax Revenue Act."

SECTION 2. DEFINITIONS

After subsection XXX, the following new subsection XXX shall be inserted:

1. "Other tobacco product" means:
   a. Any cigar or roll for smoking, other than a cigarette, made in whole or in part of tobacco; or
   b. Any other tobacco or product containing tobacco, other than a cigarette, that is intended for human consumption by smoking, by insertion into the mouth or nose, or by other means.

2. "Wholesaler" means, unless the context requires otherwise:
   a. A person who acts as a wholesaler as defined in [citation to state law referring to cigarette wholesalers]; or
   b. A person who:
      (1) Holds other tobacco products for sale to another person or entity for resale; or
      (2) Sells other tobacco products to another person or entity for resale.

3. "Wholesale price" means the price for which a wholesaler sells other tobacco products to a retailer, exclusive of any discount, trade allowance, rebate, or other reduction.

SECTION 3. TOBACCO TAX RATES

Section XXX is hereby repealed and the following new section XXX is inserted:

1. Except as otherwise provided in this section, the tobacco tax rate for cigarettes is:
   a. $1.50 for each package containing 20 or fewer cigarettes, whether sold or provided as a free sample.
   b. 7.5 cents for each cigarette in a package containing more than 20 cigarettes, whether sold or provided as a free sample.

2. The tobacco tax rate for other tobacco products is 45 percent of the wholesale price of the other tobacco products, whether sold or provided as a free sample.

3. The requirement under this subsection includes:
   a. Cigarettes and other tobacco products in vending machines or other mechanical dispensers.
   b. Cigarettes and other tobacco products generally referred to as "floor stock" in packages that already bear stamps issued by the [Comptroller] but for an amount less than the full tax imposed.
   c. Cigarettes and other tobacco products delivered to consumers in the state by mail, common carrier, or other delivery service.

4. No cigarette or other tobacco product shall be sold or delivered to a consumer without a tax stamp issued by the [Comptroller] showing that the tax has been paid.

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5. All cigarettes and other tobacco products held for sale by any person that bear a tax stamp issued by the [Comptroller] in a value less than the full tax imposed must be stamped with the additional stamps necessary to make the aggregate value equal to the full tax imposed. However, in lieu of the additional stamps necessary to make the aggregate tax value equal to the full tax imposed, the [Comptroller] may provide an alternate method of collecting the additional tax.

6. The [Comptroller] shall establish, by regulation, a system of administering, collecting and enforcing the tobacco tax on other tobacco products. Regulations adopted under this section may include:

a. Self-assessment, filing of returns, and maintenance and retention of records by wholesalers or retailers.

b. Payment of the tax by:

(1) A wholesaler who sells other tobacco products to a retailer or consumer in the state; or

(2) A retailer or consumer who possesses other tobacco products in the state on which the tobacco tax has not been paid.

(3) Any other provision that the [Comptroller] considers necessary to efficiently and economically administer, collect and enforce the tax.

SECTION 4. EFFECTIVE DATE

This Act shall take effect on July 1, 2004.