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Fiscal Fact

Trend #10: Cigarette Tax Increases Tapering Off Top 10 State Tax Trends in Recession and Recovery, 2008 to 2012

By
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While a common recourse for revenue is to raise targeted taxes on unpopular groups, such as smokers (cigarette taxes), drinkers (liquor taxes), gamblers (lotteries, slots and casinos), eaters (fat taxes, meal taxes, and soda taxes) and high-income earners (taxes on “luxuries” and “millionaires,” which can scare off revenue rather than collecting it), recent trends indicate an increasing dissatisfaction with such revenue-shifting.

Such tax policies are problematic because they distort economic decision-making, invite retaliation from other states, and ultimately harm economic activity and commerce. Shifting tax burdens away from residents also artificially lowers the cost of government to them. The more non-residents pay, the lower the cost of government to residents, which can lead to demands for even more government services, far more than they are willing to pay for. Additionally, many of these revenue sources are volatile, and increasing state reliance on them can cause budget problems down the line.

Many states have relied on an especially regressive and punitive tax: cigarette tax increases (see Table 1). As of January 1, 2012, the average state cigarette tax was \$1.46 per pack, a hefty increase from the average of \$1.18 just three years earlier and nearly ten times higher than it was a quarter century ago in 1983.¹ (These amounts are in addition to the federal \$1.0066 per pack federal cigarette tax.) Since 2002, 47 states and the District of Columbia have raised cigarette taxes a total of 105 times.² In New York City, cigarette taxes alone are \$5.85 per pack, while in Chicago they are \$4.66 per pack. (See Table 2 for state rates.)

¹ See Joseph Henchman, *State Budget Shortfalls Present a Tax Reform Opportunity*, TAX FOUNDATION SPECIAL REPORT NO. 164 at 6 (Feb. 2009), <http://www.taxfoundation.org/files/sr164.pdf>.

² See Campaign for Tobacco-Free Kids, *State Cigarette Excise Tax Rates & Rankings* (Jan. 2012), <http://www.tobaccofreekids.org/research/factsheets/pdf/0097.pdf>.

Table 1: Cigarette Tax Increases, 2006-2011

Year	Number of States Increasing Tax	States
2006	6 states	AK, AZ, HI, NJ, NC, VT
2007	10 states	AK, CT, DE, HI, IA, IN, NH, SD, TN, TX
2008	7 states + DC	HI, MD, MA, NH, NY, VT, WI, DC
2009	14 states + DC + PR	AR, CT, DE, FL, HI, KY, MS, NH, NJ, NC, PA, RI, VT, WI, DC, PR
2010	6 states + GU	HI, NM, NY, SC, UT, WA, GU
2011	3 states	CT, HI, VT

Source: Campaign for Tobacco-Free Kids; Orzechowski & Walker, *Tax Burden on Tobacco*

Note: New Hampshire reduced its cigarette tax in 2011.

Table 2: State Cigarette Tax Rates, 2012

State	Tax Rate	Rank
Alabama	\$0.425	46
Alaska	\$2.00	10
Arizona	\$2.00	10
Arkansas	\$1.15	28
California	\$0.87	32
Colorado	\$0.84	33
Connecticut	\$3.40	3
Delaware	\$1.60	19
Florida	\$1.339	25
Georgia	\$0.37	47
Hawaii	\$3.20	4
Idaho	\$0.57	41
Illinois (a)	\$1.98	31
Indiana	\$0.995	30
Iowa	\$1.36	24
Kansas	\$0.79	35
Kentucky	\$0.60	39
Louisiana	\$0.36	48
Maine	\$2.00	10
Maryland	\$2.00	10
Massachusetts	\$2.51	9
Michigan	\$2.00	10
Minnesota	\$1.586	21
Mississippi	\$0.68	36
Missouri	\$0.17	50
Montana	\$1.70	15

Nebraska	\$0.64	37
Nevada	\$0.80	34
New Hampshire	\$1.68	17
New Jersey	\$2.70	6
New Mexico	\$1.66	18
New York	\$4.35	1
North Carolina	\$0.45	44
North Dakota	\$0.44	45
Ohio	\$1.25	26
Oklahoma	\$1.03	29
Oregon	\$1.18	27
Pennsylvania	\$1.60	19
Rhode Island	\$3.46	2
South Carolina	\$0.57	41
South Dakota	\$1.53	22
Tennessee	\$0.62	38
Texas	\$1.41	23
Utah	\$1.70	15
Vermont	\$2.62	7
Virginia	\$0.30	49
Washington	\$3.025	5
West Virginia	\$0.55	43
Wisconsin	\$2.52	8
Wyoming	\$0.60	39
District of Columbia	\$2.86	(6)

Source: Tax Foundation; Orzechowski & Walker, *Tax Burden on Tobacco*; state revenue departments.

(a) – Rate reflects Illinois increase of its cigarette tax by \$1.00 per pack, effective June 24, 2012.

However, these trends have slowed dramatically, with voters perhaps expressing that a ceiling has been reached on how high cigarette tax rates should go. Key considerations include the use of taxes on tobacco users to fund general government programs and the fact that cigarette taxes are one of the most regressive ways to fund government programs (low-income earners are much more likely to be smokers). The fairness of taxing a small group of politically unpopular people to fund government programs will get a major test on June 5, when California voters decide a \$1 cigarette tax increase as part of Proposition 29.³

Higher cigarette taxes also mean more smuggling, as many states are learning.⁴ Today, a pack of brand name cigarettes can be had for as little as \$1.25 in low-tax jurisdictions around the world. When smugglers move

³ See Ballotpedia, California Proposition 29 (2012),

[http://ballotpedia.org/wiki/index.php/California_Proposition_29_Tobacco_Tax_for_Cancer_Research_Act_\(June_2012\)](http://ballotpedia.org/wiki/index.php/California_Proposition_29_Tobacco_Tax_for_Cancer_Research_Act_(June_2012)).

⁴ See, e.g., Patrick Fleenor, *California Schemin': Cigarette Tax Evasion and Crime in the Golden State*, TAX FOUNDATION SPECIAL REPORT NO. 145 (Oct. 2006), <http://www.taxfoundation.org/files/sr145.pdf>.

just one shipping container containing 200,000 packs into the U.S., the profit potential is \$1 million. Cigarettes are often the product of choice for thieves since the development of an active black market creates a place where they can quickly be sold for cash.

Cigarette tax increases are often justified as a way of compensating society for costs imposed by smokers. A series of studies, however, argue that nearly all the costs of smoking—health care, higher insurance premiums, lower productivity at work—are borne by smokers themselves.⁵

The reality is that most states support cigarette tax increases because they want more revenue. This is precisely why huge cigarette taxes are poor tax policy: allowing the majority to shift the costs of government programs onto the minority can result in instability as citizens demand more government than they are willing to pay for. Popular, expensive, broadly available public programs should be paid for with broad-based taxes.

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⁵ See, e.g., Patrick Fleenor, *The tyranny of taxing 'sin'*, CHRISTIAN SCIENCE MONITOR (May 14, 2009), <http://www.taxfoundation.org/research/show/24710.html>.