

Raising State Cigarette Taxes Always Increases State Revenues (and Always Reduces Smoking)



Every state that has raised its cigarette tax rate significantly has subsequently received more tax revenue than they would have received without a rate increase, despite the fact that cigarette tax increases reduce state smoking levels and despite any related increases in cigarette smuggling or tax evasion. That is, the increased tax per pack brings in more new state revenue than is lost from the related reductions in the packs sold and taxed in the state. Over time, declines in revenue are expected as people continue to quit or cut back on their smoking, but these declines are more than offset by savings in health care costs due to those smoking reductions.

The table below shows states with cigarette tax increases of \$1.00 per pack or more since 2010, with each state enjoying large revenue increases in the following 12 months (compared to the prior 12 months) despite related consumption and pack-sale declines. Small tax increases can be easily offset by tobacco companies with coupons and other promotional discounting, thereby minimizing or nullifying any public health benefits. Data from earlier state cigarette tax increases show the same kinds of positive results, and subsequent state tax increases will show the same, as well, once the data are available.

State	Effective Date	Tax Increase Amount (per pack)	New State Tax Rate (per pack)	State Pack Sales Decline	Nationwide Pack Sales Trend	Revenue Increase	Gross New Revenues (millions)
California	4/1/17	\$2.00	\$2.87	- 27.8%	- 4.8%	+ 138.2%	\$1,074.6
Colorado	1/1/21	\$1.10	\$1.94	- 47.5%	- 6.1%	+ 21.1%	\$36.7
Illinois	6/24/12	\$1.00	\$1.98	- 31.2%	- 2.3%	+ 39.0%	\$229.2
Illinois	7/1/19	\$1.00	\$2.98	- 27.3%	- 2.0%	+ 9.3%	\$68.5
Maryland	3/14/21	\$1.75	\$3.75	- 21.0%	- 5.8%	+ 43.3%	\$133.4
Maryland	7/1/24	\$1.25	\$5.00	- 19.2%	- 6.7%	+ 7.7%	\$26.6
Massachusetts	7/31/13	\$1.00	\$3.51	- 16.8%	- 4.4%	+ 16.0%	\$86.2
Minnesota	7/1/13	\$1.60	\$2.83	- 24.0%	- 4.7%	+ 56.0%	\$204.1
Nevada	7/1/15	\$1.00	\$1.80	- 33.1%	- 1.1%	+ 51.6%	\$54.6
New York	7/1/10	\$1.60	\$4.35	- 24.8%	- 2.6%	+ 18.8%	\$244.6
Oklahoma	7/1/18	\$1.00	\$2.03	- 21.8%	- 2.5%	+ 46.7%	\$109.9
Oregon	1/1/21	\$2.00	\$3.33	- 19.8%	- 6.1%	+ 101.0%	\$181.8
Pennsylvania	8/1/16	\$1.00	\$2.60	- 18.1%	- 2.1%	+ 31.3%	\$314.3
Utah	7/1/10	\$1.005	\$1.70	- 24.5%	- 2.6%	+ 85.0%	\$47.0
Washington	5/1/10	\$1.00	\$3.025	- 20.5%	- 3.9%	+ 17.0%	\$62.0

Sources: **State:** Orzechowski & Walker, *Tax Burden on Tobacco* monthly data of gross tax revenues. **National:** U.S. Alcohol and Tobacco Tax and Trade Bureau. Consumption declines and revenue increases are for the 12 months before and after the tax increase, using monthly data because some tax rate increases are implemented in the middle of the fiscal year. Only gross tax revenues are available on a monthly basis, therefore to be consistent, the chart above reflects gross tax revenues for all tax increases. Nationwide consumption declines are for the 50 states and DC.

False Tobacco Company Claims about Smuggling & Tax Evasion

The tobacco companies and their allies continue to make the false argument that cigarette tax increases will not produce substantial amounts of new state revenue because the increases will prompt enormous new surges in cigarette smuggling and smoker tax evasion. *But every single state that has increased its cigarette*

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*taxes has received more revenue than it would have collected absent a rate increase – despite the lost sales from related smoking declines and despite any increases in cigarette smuggling or other tax-evasion.**

In 2015, the National Research Council (NRC) and the Institute of Medicine (IOM) released a report, *Understanding the U.S. Illicit Tobacco Market: Characteristics, Policy Context, and Lessons from International Experiences*, in which it stated in reference to the tobacco industry's strategy, "one of the tobacco industry's principal arguments against increased tax rates and more stringent regulatory changes is that such measures will fuel the growth of the illicit tobacco market, although industry-sponsored estimates of the size of the illicit market tend to be inflated. More generally, concerns have been raised about the quality and transparency of industry-funded research on the illicit tobacco trade."¹ Similarly, a 2019 review of studies looking at the tobacco industry's assessments of the level of illicit trade around the world found significant methodological problems with the industry's data collection and analyses, and misleading reporting of results in ways that overestimated the extent of the issue.²

After reviewing the science and state experiences, the NRC-IOM report found "even though tax avoidance and tax evasion might increase in response to higher taxes, the loss from those actions would be less than the gain from the higher taxes." The report also recognized the health benefits of cigarette tax increases, stating, "From a purely economic standpoint, taxes that raise the price of cigarettes are socially desirable in that they discourage smoking while at the same time generating government revenues."³

In their 2017 report, *The Economics of Tobacco and Tobacco Control*, the National Cancer Institute (NCI) and World Health Organization (WHO) stated, "research demonstrates that many factors besides tobacco taxes are of equal or greater importance in determining the level of tax evasion, and that governments can raise taxes and at the same time effectively decrease tax evasion."⁴

Actual state experience and published research reinforce the findings from both the NRC-IOM and the NCI-WHO reports, and show that smuggling and tax evasion not only fails to eliminate revenue gains from cigarette tax increases but is also a much smaller problem than the cigarette companies and their allies claim, especially when compared to the additional new revenues, public health benefits, and smoking-caused cost reductions from state cigarette tax increases.

For example, on July 1, 2013, Minnesota increased its cigarette tax by \$1.60 per pack, tied for the highest one-time increase in any state. The increase gave Minnesota a tax rate of \$2.83 – more than one dollar per pack higher than two of its four neighboring states (Iowa and South Dakota) and more than two dollars higher than North Dakota. As a result of the increase, Minnesota received \$204.1 million in new revenue (a 56.0% increase) in the first 12 months, while its neighboring states with lower cigarette tax rates barely benefited. In nearby Iowa and Wisconsin, revenues and cigarette sales actually decreased during that time, while North Dakota and South Dakota's revenues only increased by 7.9 percent (\$1.7 million) and 0.5 percent (\$285,444), respectively.⁵

The NRC-IOM report underscores the difficulty in accurately determining the degree of smuggling and tax evasion. One older study estimated state smuggling and tax evasion revenue losses to be less than eight percent of total state cigarette tax revenues (with those losses concentrated in the highest-tax states),⁶ and another study found that all smuggling and tax evasion accounted for less than ten percent of all cigarette sales.⁷ Similarly, analysis by the NRC-IOM report committee found illicit cigarette sales made up 8.5 percent of total cigarette sales. The report also cited other research, including littered pack studies, which found higher estimates.⁸

* By increasing its cigarette tax by 17.5 cents in 2006, New Jersey increased its cigarette tax revenues for the following years, but not enough to offset all of the declines already underway because of various other factors that were reducing cigarette sales in the state, such as the new smoke-free law. Consequently, state revenues declined modestly from 2006 to 2007, but the revenue decline would have been much larger without the rate increase (and a larger cigarette tax increase would have brought in even more revenues). It is inaccurate for tobacco industry critics to say that the 2006 NJ cigarette tax increase caused state revenues to decline when the rate increase clearly brought the state more revenues than it would have received without any tax increase.

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After a cigarette tax increase, many smokers who initially try to avoid the higher rate soon use up their stockpile of cigarettes purchased right before the increase or tire of driving across state border or going to the Internet to buy cheaper cigarettes, and return to the convenience of normal full-tax purchases in their own state. For example, New York state's taxable pack sales decreased sharply in the year after the state's 55-cent tax increase in March 2000, beyond what consumption declines might explain, but then increased in the following year – most likely because of smokers' depleted pre-increase stockpiles of cigarettes, smoker tax-evasion fatigue, and the strong appeal of convenient single-pack purchases from nearby sales outlets.

It is also worth noting that any real or imagined problems with smuggling and tax evasion after New York state's cigarette tax increase in 2000 were not significant enough to stop the state from increasing its cigarette tax to \$1.50 per pack in 2002, to \$2.75 per pack in 2008, to \$4.35 per pack in 2010, and most recently to \$5.35 per pack in 2023, the highest state cigarette tax rate in the nation. Nor did it stop the state from permitting New York City to increase its supplementary local cigarette tax from 8 cents to \$1.50 per pack in 2002. The levels of cigarette smuggling and tax evasion in New York City are supposedly among the highest in the country; but in the first year after its 2002 rate increase revenues increased nine-fold, to \$250 million, significantly more than the city had expected.⁹

Similarly, in January 2014, Chicago increased its local cigarette tax to \$1.18 per pack, so that in addition to the Cook County cigarette tax (\$3.00 per pack) and the state cigarette tax (\$2.98 per pack as of July 2019), the total state-local excise tax paid on a pack of cigarettes in the city is \$7.16 per pack. Now the discrepancy in tax rates between Chicago and its immediate neighbor Indiana is \$6.165 per pack, considering Indiana's cigarette tax rate of 99.5 cents per pack. Chicago has taken steps to protect revenues by launching a campaign to encourage Chicago residents to report illegally stamped or unstamped cigarettes in return for a \$100 reward.¹⁰

Further, research shows that there are effective and existing tools that states can use to minimize any tax evasion, such as high-tech tax stamps, increased enforcement and penalties, and comprehensive licensing policies.¹¹ The 2017 NCI-WHO monograph concluded, "Experience from many countries demonstrates that illicit trade can be successfully addressed, even when tobacco taxes and prices are raised, resulting in increased tax revenues and reduced tobacco use."¹²

The tobacco industry and its allies often follow up the false cross-border claims by arguing that states have not received as much new revenue "as expected" from their cigarette tax increases. But such "less than expected" results are usually a matter of some states making overly optimistic revenue projections that fail to account for ongoing smoking declines and all the smoking reductions and other pack sales declines prompted by cigarette tax increases.¹³ As shown above, no matter what the tobacco companies say, they cannot get around the key fact that cigarette tax increases are a powerful tool for reducing smoking and increasing state or local revenues.

¹ National Research Council (NRC) & Institute of Medicine (IOM), *Understanding the U.S. Illicit Tobacco Market: Characteristics, Policy Context, and Lessons from International Experiences*, Committee on the Illicit Tobacco Market: Collection and Analysis of the International Experience, P. Reuter and M. Majmundar, Eds. Committee on Law and Justice, Division of Behavioral and Social Sciences and Education. Board on Population Health and Public Health Practice, Institute of Medicine. Washington, DC: The National Academies Press, 2015, <https://www.nap.edu/catalog/19016/understanding-the-us-illicit-tobacco-market-characteristics-policy-context-and>.

² Gallagher, AWA, et al., "Tobacco industry data on illicit tobacco trade: a systematic review of existing assessments," *Tobacco Control* 8(3):334-345, 2019.

³ NRC & IOM, *Understanding the U.S. Illicit Tobacco Market: Characteristics, Policy Context, and Lessons from International Experiences*, 2015, <https://www.nap.edu/catalog/19016/understanding-the-us-illicit-tobacco-market-characteristics-policy-context-and>.

⁴ U.S. National Cancer Institute (NCI) & World Health Organization (WHO), *The Economics of Tobacco and Tobacco Control*, National Cancer Institute Tobacco Control Monograph 21, NIH Publication No. 16-CA-8029A, Bethesda, MD: U.S. Department of Health and Human Services, National Institutes of Health, National Cancer Institute; and Geneva, CH: World Health Organization; 2016, https://cancercontrol.cancer.gov/brp/tcrb/monographs/21/docs/m21_complete.pdf.

⁵ Data from Orzechowski & Walker, *The Tax Burden on Tobacco* monthly reports [an industry-funded report].

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- ⁶ Farrelly, M, et al., *State Cigarette Excise Taxes: Implications for Revenue and Tax Evasion*, RTI International, May 2003, http://www.rti.org/pubs/8742_Excise_Taxes_FR_5-03.pdf. See also, Yurekli, A & Zhang, P, "The Impact of Clean Indoor-Air Laws and Cigarette Smuggling on Demand for Cigarettes: An Empirical Model," *Health Economics* 9:159-170, 2000.
- ⁷ Stehr, M, "Cigarette Tax Avoidance and Evasion," *Journal of Health Economics*, 24(2):277-297, March 2005.
- ⁸ NRC & IOM, *Understanding the U.S. Illicit Tobacco Market: Characteristics, Policy Context, and Lessons from International Experiences*, 2015, <https://www.nap.edu/catalog/19016/understanding-the-us-illicit-tobacco-market-characteristics-policy-context-and>.
- ⁹ TFK Factsheet, *The New York City Experience: New Revenues from a \$1.42 Per Pack Cigarette Tax Increase*, <https://www.tobaccofreekids.org/assets/factsheets/0307.pdf>.
- ¹⁰ Mayor Rahm Emanuel Press Office, "Chicago Calls On Residents To Join Fight Against Illegal Tobacco Sales," Press Release, June 16, 2014.
- ¹¹ See, e.g., TFK Factsheet, *State Options to Prevent and Reduce Cigarette Smuggling and Block Other Illegal Efforts to Evade State Tobacco Taxes*, <https://www.tobaccofreekids.org/assets/factsheets/0274.pdf>. See, also, the TFK factsheet, *The Many Ways States Can Raise Revenue While Also Reducing Tobacco Use and Its Many Harms & Costs*, <https://www.tobaccofreekids.org/assets/factsheets/0357.pdf>. NCI & WHO, *The Economics of Tobacco and Tobacco Control*, 2016, https://cancercontrol.cancer.gov/brp/tcrb/monographs/21/docs/m21_complete.pdf.
- ¹² NCI & WHO, *The Economics of Tobacco and Tobacco Control*, National Cancer Institute Tobacco Control Monograph 21, 2016, https://cancercontrol.cancer.gov/brp/tcrb/monographs/21/docs/m21_complete.pdf.
- ¹³ For more on this additional false argument against state cigarette tax increases, see the TFK Factsheet, *Responses to Misleading and Inaccurate Cigarette Company Arguments Against State Tobacco Tax Increases* [at point II], <https://www.tobaccofreekids.org/assets/factsheets/0227.pdf>.