plaid pantry
convenience stores
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House Committee On Revenue

Chairman Phil Barnhart	Vice-Chair Cliff Bentz
Vice-Chair Jessica Vega Pederson	Representative John Davis
Representative Mark Johnson	Representative Ann Lininger
Representative Tobias Read	Representative Barbara Smith Warner
Representative Gail Whitsett	

PLAID PANTRY - HB 2555 CIGARETTE TAX

Dear Chair Barnhart, Vice-Chairs Bentz and Vega Pederson, Committee Members:

We are writing to express our opposition to HB 2555. Plaid Pantry owns and operates 108 convenience stores in the Northwest, with the majority of our stores being here in Oregon. We have been locally owned and operated for over 50 years and employ over 750 Oregonians. Please see Exhibit 1 for details of Plaid's contributions to the State's economy. Plaid is also a member of the Oregon Neighborhood Store Association (ONSA), which provides legislative and regulatory representation for Oregon's 2,500 smaller, mostly family-owned and operated convenience food stores.

Tobacco tax revenue is a critical revenue stream for the State. Cigarette taxes, other tobacco product taxes, and Master Settlement Agreement payments total $332 million annually; 50% more than the annual liquor revenue from OLCC. But tobacco tax revenue is a declining and fragile revenue stream that calls for delicate management. It is important to realize that large tax increases on top of already high tax levels do not generate the amount of revenue expected. This is because the new tax is only collected on the remaining reduced tobacco sales after the new tax. Oregon stands to lose the full prior tax rate on packs lost to cross-border sales reductions and increased smuggling caused by the tax increase. The tobacco revenue stream can be thought of as being similar to a retirement account. It is a slowly diminishing source of income and if not managed prudently will go away faster than planned. Like a retirement account, it is tempting to make a big "withdrawal" in the form of a large tax increase. But this will decrease the base amount we are counting on to continue to generate income for many more years, thereby reducing the total long-term revenue available.

Exhibit 2 illustrates the history of declining taxable cigarette sales, and models the example of a $1 per pack tax increase in 2016. Such large tax increases will severely damage this revenue source, would also damage small businesses, be harmful to retail workers' jobs, pay, and benefits, and unfair for a hard-hit minority of Oregonians.

In addition, the Legislature enacted a significant 11% tax increase in 2014, with additional increases for 2016 and 2018. The majority of the proceeds from that tax increase were dedicated to fund additional community mental health services. This last rate increase has not produced the amount of revenue expected due to lower tobacco sales, and will be further reduced by additional lost sales as a result of this proposed tax increase.

We urge you to stick with the tax plan agreed to in the last Legislature for several reasons:

1. **<u>Large tax increases on a small group of citizens to benefit the overall population is onerous and unfair.</u>**

   Tobacco products are already heavily taxed at both the Federal and State level, and tobacco users are already paying considerably more in taxes than other citizens. It is not fair or equitable to single out less than a fifth of Oregon's citizens with additional regressive taxes, and not ask all other citizens to help with the State's current budget challenges.

2. **<u>Higher tobacco taxes do not significantly reduce consumption, but drive consumers to avoid/evade taxes.</u>**

   Very high cigarette taxes have made cigarette bootlegging both a national problem and a lucrative criminal enterprise. The top cigarette tax rate States lose half of their expected revenues to smuggling, according to a study by The Tax Foundation (Exhibit 3). Evidence shows smuggling rates rise significantly in States after adopting large cigarette tax increases.

3. **<u>Higher cigarette taxes will decrease significant cross-border cigarette purchases and tax revenues from Washington consumers.</u>**

   Washingtonians avoid/evade taxes on 46.4% of cigarettes consumed (Exhibit 3), which represents more than 112 million untaxed packs annually. Analysis indicates over 35 million of these packs are purchased in Oregon. <u>This amounts to over $46 million in Oregon tax revenue currently collected from non-Oregon residents.</u> Raising Oregon's tax rate will dramatically alter this tax revenue stream, and would adversely affect retail and wholesale economic activity for Oregon small businesses and the State overall. Tobacco customers purchase other retail products, lottery, and motor fuel on the same trips, all of which provide significant Oregon taxes and revenue. Marketing data shows that on average a tobacco customer purchases $2.67 in non-tobacco products per pack of cigarettes.

4. **Washington State is a noteworthy example of extreme excise tax evasion.**

In 2013, nationwide consumption of cigarettes averaged 48 packs per year per-capita. Oregon taxable cigarette sales in 2013 were 43 packs per-capita, while Washington collected taxes on only 19 packs per-capita. Oregon collected tax on 168 million packs with a population of 4 million, while Washington collected tax on only 135 million packs with a population of 7 million. Washington's incidence of smoking is *not half* that of Oregon.

5. **Increasing the cigarette tax does not raise the amount of revenue expected, and the expected revenue gains will be even less than historically realized.**

There are two primary factors affecting the reduced expected tax revenue from Oregon tax rate increases, and these factors will result in increasingly disproportionate effects as the tax rate increases from current high levels.

A. Washington State Cross-Border Purchases

Cross-border sales are very sensitive to the tax differential. There is a very tight correlation between the states' excise tax differential and the share of combined total cartons sold in both states. Raising Oregon's cigarette tax $1.00 per pack in fiscal year 2015/16 would reduce the cross-border gap to only 71 cents per pack. Correlation analysis indicates a $1.00 per pack Oregon increase would result in lost sales of approximately 19.1 million Oregon taxable packs formerly sold to Washington consumers.

B. Higher Tax Avoidance/Evasion Decreases Oregon Taxable Unit Sales

Interpolating cigarette tax rates and reported smuggling rates between Oregon and Washington indicates a $1 per pack Oregon tax increase would result in a loss of another 19.4 million Oregon taxable packs per year as more Oregonians find untaxed or lower-taxed alternatives.

The combined effect of these two major factors, with the steady underlying consumption trend decline of 3.5% per year, will result in a base erosion to only 112 million packs available to be taxed in the future. With taxable packs being reduced so dramatically, Oregon will only realize an additional $58 million from the new tax. But this would be more than offset by $400 million of lost consumer spending caused by such a large additional tax, and the resulting damage to legitimate small businesses and their employees.

The average retail price of a pack of cigarettes in Oregon today is $5.50, and with the aforementioned additional non-tobacco sales of $2.67 per transaction, the average tobacco customer transaction amounts to $8.17. A tax increase of $1 per pack and the trend decline will wipe out 50 million legal pack transactions between legitimate businesses and law-abiding customers, and will transfer over $400 million in economic activity to the untaxed underground economy. Such losses ripple through the entire supply chain, damaging wholesale and transportation trade activity, thereby reducing jobs and benefits for those working in more than just our industry.

See attached Exhibit 4 map of lower tax states surrounding Oregon.

6. **<u>Underlying Trend Loss to Un-Taxed, Lower-Taxed and Alternative Products</u>**

Aside from the effects of the currently proposed tax increase, cigarette taxes are a declining revenue source as noted above. Twenty years ago Oregon collected taxes on nearly twice the number of cigarettes as today. Taxable cigarette volumes have a well-established and predictable 3.5% annual trend decline. Even with no changes in the current tax structure we can be certain of an underlying decrease of about five million packs annually, a continuous ongoing reduction in this tax base. It is not sound public policy for Oregon to continue to increase its dependency on a declining revenue stream. Indeed, continuous large tax increases will only hasten the decline until the point is reached in the not-too-distant future in which a tax rate increase will result in less incremental revenue.

7. **<u>Higher cigarette taxes hurt Oregon small businesses and Oregon's economy.</u>**

Higher cigarette taxes don't hurt "Big Tobacco" as much as they hurt Oregon's consumers and small businesses. Oregon retailers collect $1.01 per pack of cigarettes in Federal excise taxes. In 2015, Oregon retailers will also collect $1.31 per pack in Oregon excise taxes. By comparison, a retailer realizes only about $0.65 in gross margin on the sale of a pack of cigarettes and wholesalers realize only about $0.10. Retailers also realize about a 30% margin on the $2.67 of non-tobacco purchases that go with a tobacco purchase, or $0.80 in additional margin. Most of this $1.55 gross margin goes directly to generating an interrelated stream of Oregon economic activity.

Well over half of these margin dollars go directly to support jobs in the form of wages and employee benefits. Plaid and similar small retailers spend most of what is left with many hundreds of companies, mostly Oregon small businesses, which provide maintenance, repairs, supplies, transportation, and other services to our retail operations. Businesses then pay income taxes on what is left, and retain only a small percentage. Retailers staff their stores based on the amount of sales. When sales go down, employers have no choice but to cut hours, eliminate jobs, and reduce other expenses.

Combining direct tobacco margin dollars, plus margin on complimentary sales, more than $78 million in taxable private economic activity would be destroyed by another tax increase of $1 per pack ($1.55 margin x 50 million lost packs). This is $20 million more than the expected incremental tax revenue to Oregon of $58 million. This beneficial economic activity would be transferred to illegal tax evasion entrepreneurs, creating liabilities for the State to be made up in unemployment payments, SNAP benefits, and Oregon Health Plan benefits formerly paid by private employers. Oregon stands to lose net revenue in the tens of millions of dollars, after the losses suffered by employees, customers, and law-abiding owners of small businesses. A loss of $400 million in sales and $78 million in gross margin to pay expenses, primarily hitting Oregon's 2,500 convenience stores, would be enough to cause many of these mostly small family-owned stores to go out of business.

In summary, an additional large tax increase is very unfair to a minority of Oregonians who are already financially stressed. This tax would hurt legitimate small businesses, rewarding and enabling illegal enterprises and unlawful activity. The potential Oregon tax revenue that would be realized is increasingly diminished at the margin due to already high levels of taxation on tobacco products, the resultant increase in tax avoidance/evasion schemes, and the loss of cross-border sales to Washington consumers. Such a tax would inflict a heavy price on legitimate economic activity, businesses, Oregon jobs, employee benefits, and other business-generated tax revenue streams to cities, counties, and the State. The State should not establish programs that rely on funding that will not be realized.

For all of these reasons, we strongly oppose additional tax increases on cigarettes, and urge you to stick to the programmed moderate tax increases previously enacted by this body.

Respectfully,

Chris Girard
CEO, Plaid Pantries, Inc.
Chairman, Oregon Neighborhood Store Association

Exhibits 1-4

Plaid Pantries, Inc.:

An Oregon Business,

An Oregon Employer,

Contributing to Oregon's Economy

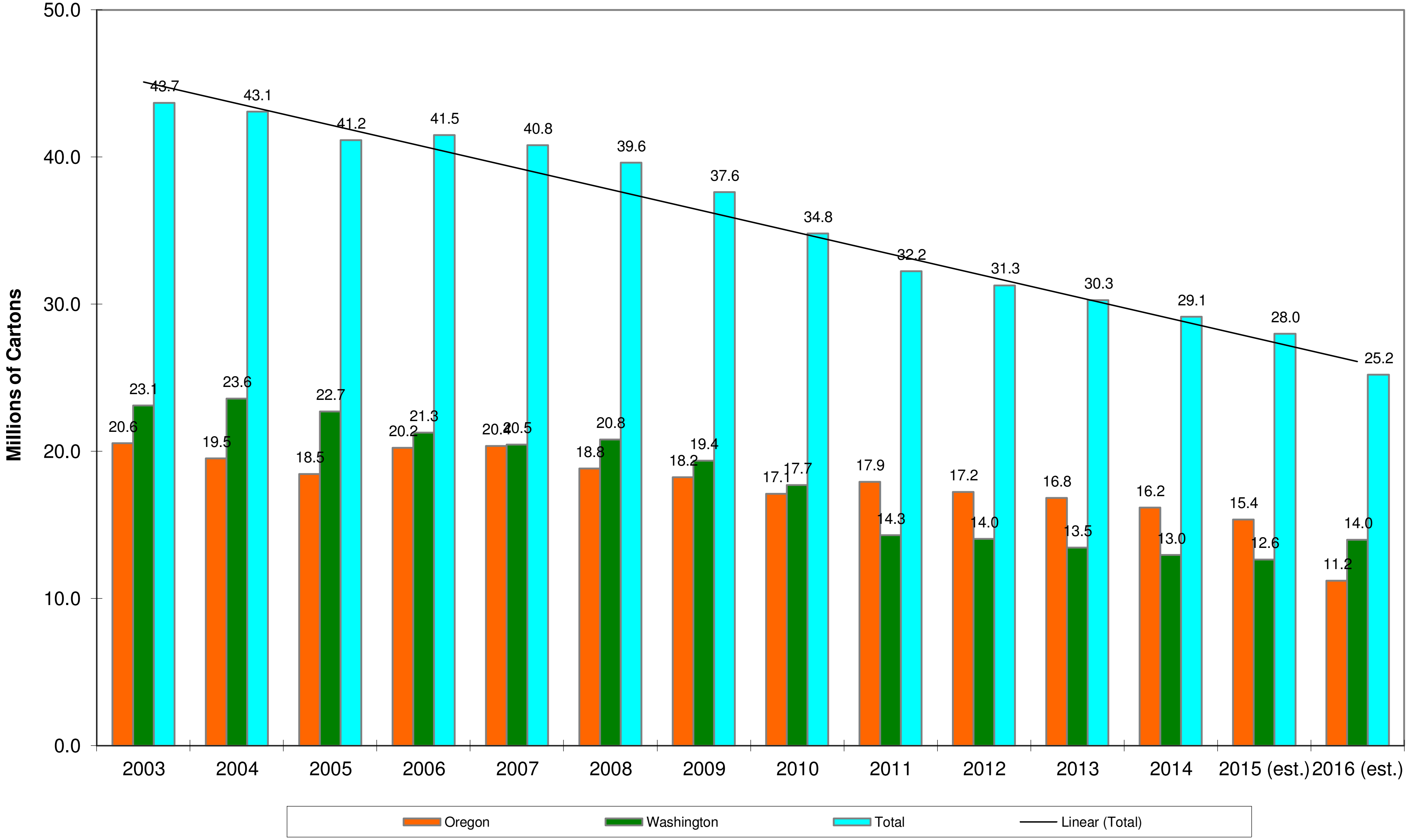
Locations in Oregon & Washington	110
Number of Employees	800
Customers per Day	70,000+
Annual Sales	$203,000,000
Number of Supplier/Trade Companies	300+

<u>Contributions to The Northwest's Economy in 2014</u>

Employee Payroll	20,600,000
Payroll Taxes, Unemployment, 401k match, Tuition Reimbursement, Worker's Compensation & Social Security Contributions	2,400,000
Employee Health Insurance Contributions (by Plaid Pantry)	2,300,000
Rent Payments to Landlords	6,100,000
Property Taxes and Income Taxes	2,700,000
Services purchased including repairs, banking, insurance, legal and accounting	4,100,000
TOTAL	**$38,200,000**

Taxed Cigarette Cartons

Exhibit 2



TAX FOUNDATION
FISCAL FACT
Feb. 2015
No. 450

Cigarette Taxes and Cigarette Smuggling by State, 2013

By Scott Drenkard
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Key Findings

- Large differentials in cigarette taxes across states create incentives for black market sales.
- Smuggled cigarettes make up substantial portions of cigarette consumption in many states, and greater than 20 percent of consumption in fifteen states.
- The highest inbound cigarette smuggling rates are in New York (58.0 percent), Arizona (49.3 percent), Washington (46.4 percent), New Mexico (46.1 percent), and Rhode Island (32.0 percent).
- The highest outbound smuggling rates are in New Hampshire (28.6 percent), Idaho (24.2 percent), Virginia (22.6 percent), Delaware (22.6 percent), and Wyoming (21.0 percent).
- Smuggling rates jumped substantially in Illinois after hikes in state and county excise tax rates, from 1.1 percent of consumption in the last edition to 20.9 percent in this edition.
- Cigarette tax rates increased in 30 states and the District of Columbia between 2006 and 2013.

Public policies often have unintended consequences that outweigh their benefits. One consequence of high state cigarette tax rates has been increased smuggling as criminals procure discounted packs from low-tax states to sell in high-tax states. Growing cigarette tax differentials have made cigarette smuggling both a national problem and a lucrative criminal enterprise.

Each year, scholars at the Mackinac Center for Public Policy, a Michigan think tank, use a statistical analysis of available data to estimate smuggling rates for each state.[1] Their most recent report uses 2013 data and finds that smuggling rates generally rise in states after they adopt large cigarette tax increases. Smuggling rates have dropped in some states, however, often where neighboring states have higher cigarette tax rates. Table 1 shows the data for each state, comparing 2013 and 2006 smuggling rates and tax changes.

New York is the highest net importer of smuggled cigarettes, totaling 58.0 percent of the total cigarette market in the state. New York also has the highest state cigarette tax ($4.35 per pack), not counting the additional local New York City cigarette tax (an additional $1.50 per pack). Smuggling in New York has risen sharply since 2006 (+62 percent), as has the tax rate (+190 percent).

Smuggling in Illinois has also increased dramatically, from 1.1 percent to 20.9 percent since the last data release. This is likely related to the fact that the Illinois state cigarette tax rate was hiked from $0.98 to $1.98 in mid-2012. This increase in smuggling may continue in future data editions, as more recent increases in both the Cook County rate (from $2.00 to $3.00 per pack, effective March 1, 2013) and the Chicago municipal rate (from $0.68 to $1.18, effective January 10, 2014) have brought the combined state-county-municipal rate in the city of Chicago to $6.16 per pack of cigarettes, the highest combined rate in the country.[2]

Other peer-reviewed studies provide support for these findings.[3] Recently, a study in Tobacco Control examined littered packs of cigarettes in five northeast cities, finding that 58.7 percent of packs did not have proper local stamps. The authors estimated 30.5 to 42.1 percent of packs were trafficked.[4]

1 *See, e.g.*, Mackinac Center for Public Policy, Michael LaFaive, Todd Nesbit, & Scott Drenkard, *Cigarette Smugglers Still Love New York and Michigan, but Illinois Closing In* (Feb. 2015), http://www.mackinac.org/20900; Mackinac Center for Public Policy, Michael LaFaive, & Todd Nesbit, *Cigarette Smuggling Still Rampant in Michigan, Nation* (Feb. 2014), http://www.mackinac.org/19725; Mackinac Center for Public Policy, Michael LaFaive, & Todd Nesbit, *Higher Cigarette Taxes Create Lucrative, Dangerous Black Market* (Jan. 2013), http://www.mackinac.org/18128; Mackinac Center for Public Policy, Michael LaFaive, *Cigarette Taxes and Smuggling 2010: An Update of Earlier Research* (Dec. 2010), http://www.mackinac.org/14210; Mackinac Center for Public Policy, Michael LaFaive, Patrick Fleenor, & Todd Nesbit, *Cigarette Taxes and Smuggling: A Statistical Analysis and Historical Review* (Dec. 2008), http://www.mackinac.org/10005.

2 The Civic Federation, *Higher Tax Rates in Effect for Chicago Tobacco Consumers* (Jan. 2014), http://www.civicfed.org/civic-federation/blog/higher-tax-rates-effect-chicago-tobacco-consumers.

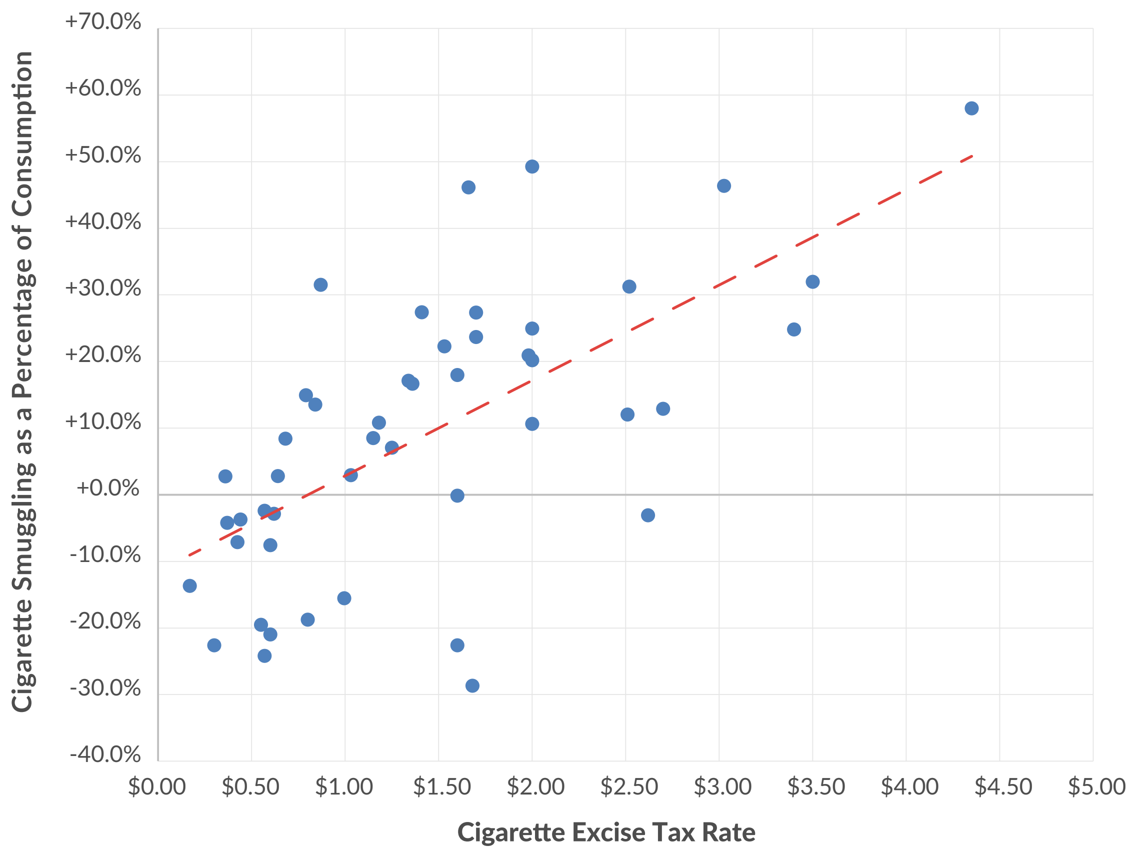
3 *See, e.g.*, Michael F. Lovenheim, *How Far to the Border?: The Extent and Impact of Cross-Border Casual Cigarette Smuggling*, National Tax Journal, Vol. LXI, No. 1, (March 2008). http://ntj.tax.org/wwtax/ntjrec.nsf/BF515771548F9D538525742E006CCBBA/$FILE/Article%2001-Lovenheim.pdf; R. Morris Coats, *A Note on Estimating Cross Border Effects of State Cigarette Taxes*, National Tax Journal, Vol. 48, No. 4, (December 1995), pp. 573-84, http://ntj.tax.org/wwtax/ntjrec.nsf/notesview/D7AF38C6EF8BF6D7852567EF0057A8C0/$file/v48n4573.pdf; Mark Stehr, *Cigarette Tax Avoidance and Evasion*, Journal of Health Economics, Vol. 24, (2005), pp. 277-97, http://legacy.library.ucsf.edu/documentStore/h/j/o/hjo10j00/Shjo10j00.pdf.

4 Kevin C. Davis et. al., *Cigarette Trafficking in Five Northeastern US Cities*, Tobacco Control, December 2013, http://tobaccocontrol.bmj.com/content/early/2013/12/11/tobaccocontrol-2013-051244.

Smuggling takes many forms: counterfeit state tax stamps, counterfeit versions of legitimate brands, hijacked trucks, or officials turning a blind eye.[5] The study's authors, LaFaive and Nesbit, cite examples of a Maryland police officer running illicit cigarettes while on duty, a Virginia man hiring a contract killer over a cigarette smuggling dispute, and prison guards caught smuggling cigarettes into prisons. Policy responses have included banning common carrier delivery of cigarettes,[6] greater law enforcement activity on interstate roads,[7] differential tax rates near low-tax jurisdictions,[8] and cracking down on tribal reservations that sell tax-free cigarettes.[9] However, the underlying problem remains: high cigarette taxes that amount to a "price prohibition" of the product in many U.S. states.[10]

Cigarette Smuggling Rises with Excise Tax Rates

Cigarette Smuggling vs. State Cigarette Excise Tax Rate, 2013



Note: Positive smuggling percentages are inflow to a state; negative percentages are outflow.
Source: Mackinac Center for Public Policy; Tax Foundation.

5 *See, e.g.*, Scott Drenkard, *Tobacco Taxation and Unintended Consequences: U.S. Senate Hearing on Tobacco Taxes Owed, Avoided, and Evaded*, Tax Foundation, July 29, 2014, http://taxfoundation.org/article/tobacco-taxation-and-unintended-consequences-us-senate-hearing-tobacco-taxes-owed-avoided-and-evaded.

6 *See, e.g.*, Curtis Dubay, *UPS Decision Unlikely to Stop Cigarette Smuggling*, Tax Foundation Tax Policy Blog, Oct. 25, 2005, http://taxfoundation.org/blog/ups-decision-unlikely-stop-cigarette-smuggling.

7 *See, e.g.*, Gary Fields, *States Go to War on Cigarette Smuggling*, Wall Street Journal, Jul. 20, 2009, http://professional.wsj.com/article/SB124804682785163691.html?mg=reno64-wsj.

8 *See, e.g.*, Mark Robyn, *Border Zone Cigarette Taxation: Arkansas's Novel Solution to the Border Shopping Problem*, Tax Foundation Fiscal Fact No. 168 (Apr. 9, 2009), http://taxfoundation.org/article/border-zone-cigarette-taxation-arkansass-novel-solution-border-shopping-problem.

9 *See, e.g.*, Joseph Henchman, *New York Governor Signs Law to Tax Cigarettes Sold on Tribal Lands*, Tax Foundation Tax Policy Blog, Dec. 16, 2008, http://taxfoundation.org/blog/new-york-governor-signs-law-tax-cigarettes-sold-tribal-lands.

10 *See* Patrick Fleenor, *Tax Differentials on the Interstate Smuggling and Cross-Border Sales of Cigarettes in the United States*, Tax Foundation Background Paper No. 16 (Oct. 1, 1996), http://taxfoundation.org/article/tax-differentials-interstate-smuggling-and-cross-border-sales-cigarettes-united-states.

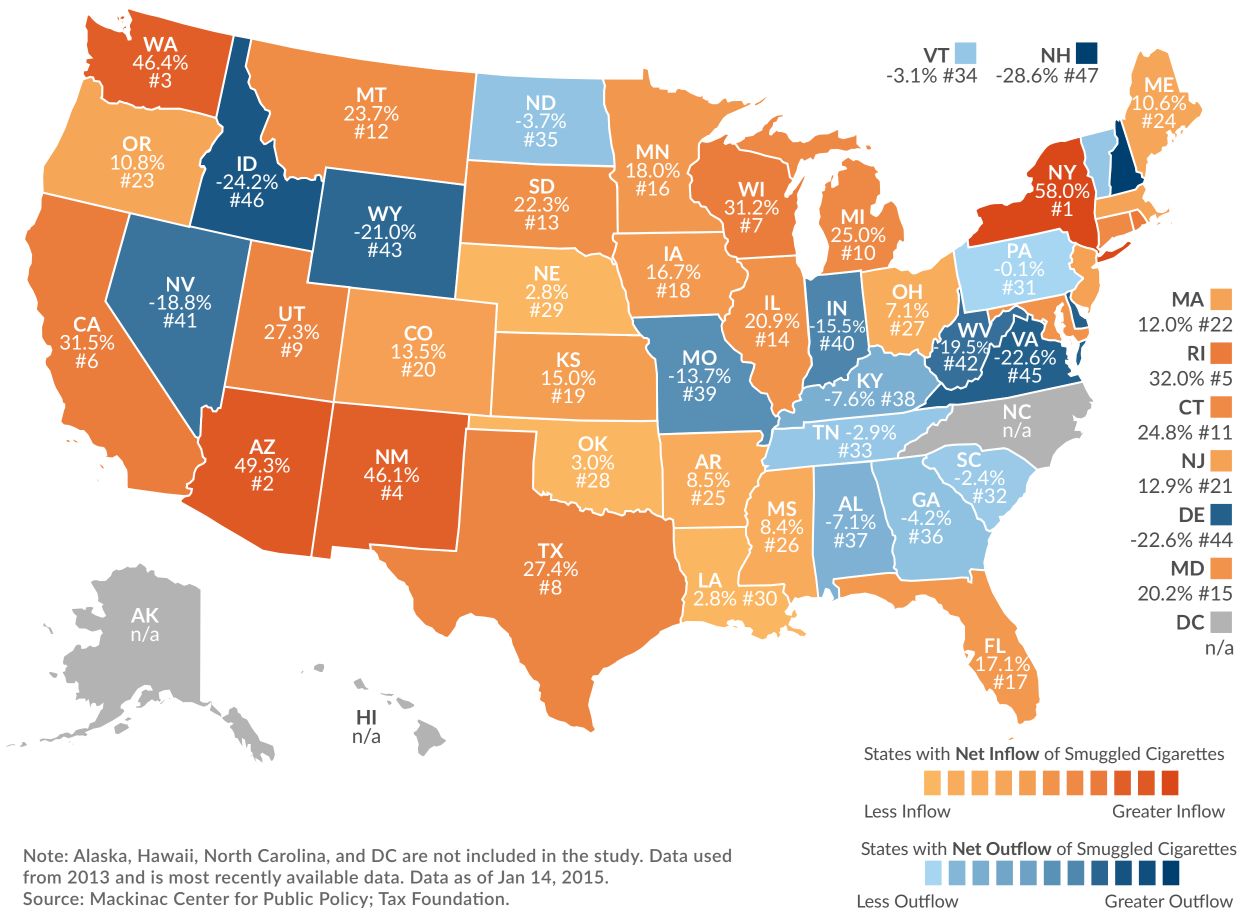
Table 1: 2013 Cigarette Tax Rates, Smuggling Percentages, and Changes Since 2006

	2013 Tax Rate (per pack)	2013 Consumption Smuggled (positive is inflow, negative is outflow)	2006 Consumption Smuggled (positive is inflow, negative is outflow)	2013 Smuggling Rank (1 is most smuggling, 50 least)	Smuggling Rank Change Since 2006 (e.g., NY changed from #5 to #1, so rank changed +4)	Cigarette Tax Rate Change, 2006-2013
New York	$4.35	+58.0%	+35.8%	1	+4	+190%
Arizona	$2.00	+49.3%	+32.1%	2	+5	+69%
Washington	$3.025	+46.4%	+38.2%	3	+1	+49%
New Mexico	$1.66	+46.1%	+39.9%	4	-2	+82%
Rhode Island	$3.50	+32.0%	+43.2%	5	-4	+42%
California	$0.87	+31.5%	+34.6%	6	+0	No Change
Wisconsin	$2.52	+31.2%	+13.1%	7	+11	+227%
Texas	$1.41	+27.4%	+14.8%	8	+8	+244%
Utah	$1.70	+27.3%	+12.9%	9	+11	+145%
Michigan	$2.00	+25.0%	+31.0%	10	-1	No Change
Connecticut	$3.40	+24.8%	+12.3%	11	+11	+125%
Montana	$1.70	+23.7%	+31.2%	12	-4	No Change
South Dakota	$1.53	+22.3%	+5.3%	13	+15	+189%
Illinois	$1.98	+20.9%	+13.7%	14	+3	+102%
Maryland	$2.00	+20.2%	+10.4%	15	+9	+100%
Minnesota	$1.60	+18.0%	+23.6%	16	-6	+1%
Florida	$1.339	+17.1%	+6.9%	17	+9	+294%
Iowa	$1.36	+16.7%	+2.4%	18	+15	+278%
Kansas	$0.79	+15.0%	+18.4%	19	-7	No Change
Colorado	$0.84	+13.5%	+16.6%	20	-6	No Change
New Jersey	$2.70	+12.9%	+38.4%	21	-18	+13%
Massachusetts	$2.51	+12.0%	+17.5%	22	-9	+66%
Oregon	$1.18	+10.8%	+21.1%	23	-12	No Change
Maine	$2.00	+10.6%	+16.6%	24	-9	No Change
Arkansas	$1.15	+8.5%	+3.9%	25	+6	+95%
Mississippi	$0.68	+8.4%	-1.7%	26	+11	+36%
Ohio	$1.25	+7.1%	+13.1%	27	-8	No Change
Oklahoma	$1.03	+3.0%	+9.6%	28	-3	No Change
Nebraska	$0.64	+2.8%	+12.0%	29	-6	No Change
Louisiana	$0.36	+2.8%	+6.4%	30	-3	No Change
Pennsylvania	$1.60	-0.1%	+12.9%	31	-10	+19%
South Carolina	$0.57	-2.4%	-8.1%	32	+9	+14%
Tennessee	$0.62	-2.9%	-4.5%	33	+5	+210%
Vermont	$2.62	-3.1%	+4.5%	34	-4	+46%
North Dakota	$0.44	-3.7%	+3.0%	35	-3	No Change
Georgia	$0.37	-4.2%	-0.3%	36	-1	No Change
Alabama	$0.425	-7.1%	+0.5%	37	-3	No Change
Kentucky	$0.60	-7.6%	-6.4%	38	+2	+100%
Missouri	$0.17	-13.7%	-11.3%	39	+5	No Change
Indiana	$0.995	-15.5%	-10.8%	40	+3	+79%
Nevada	$0.80	-18.8%	+4.8%	41	-12	No Change
West Virginia	$0.55	-19.5%	-8.4%	42	+0	No Change
Wyoming	$0.60	-21.0%	-0.6%	43	-7	No Change
Delaware	$1.60	-22.6%	-61.5%	44	+3	+191%
Virginia	$0.30	-22.6%	-23.5%	45	+0	No Change
Idaho	$0.57	-24.2%	-6.0%	46	-7	No Change
New Hampshire	$1.68	-28.6%	-29.7%	47	-1	+110%
Alaska	$2.00	N/A	N/A	N/A	N/A	+25%
Hawaii	$3.20	N/A	N/A	N/A	N/A	+129%
North Carolina	$0.45	N/A	N/A	N/A	N/A	+50%
District of Columbia	$2.50	N/A	N/A	N/A	N/A	+150%

Source: Mackinac Center for Public Policy; Tax Foundation.

Cigarette Smuggling by State

Smuggled cigarettes consumed as a percentage of total cigarettes consumed, 2013



Note: Alaska, Hawaii, North Carolina, and DC are not included in the study. Data used from 2013 and is most recently available data. Data as of Jan 14, 2015.
Source: Mackinac Center for Public Policy; Tax Foundation.

The Tax Foundation is a 501(c)(3) non-partisan, non-profit research institution founded in 1937 to educate the public on tax policy. Based in Washington, D.C., our economic and policy analysis is guided by the principles of sound tax policy: simplicity, neutrality, transparency, and stability.

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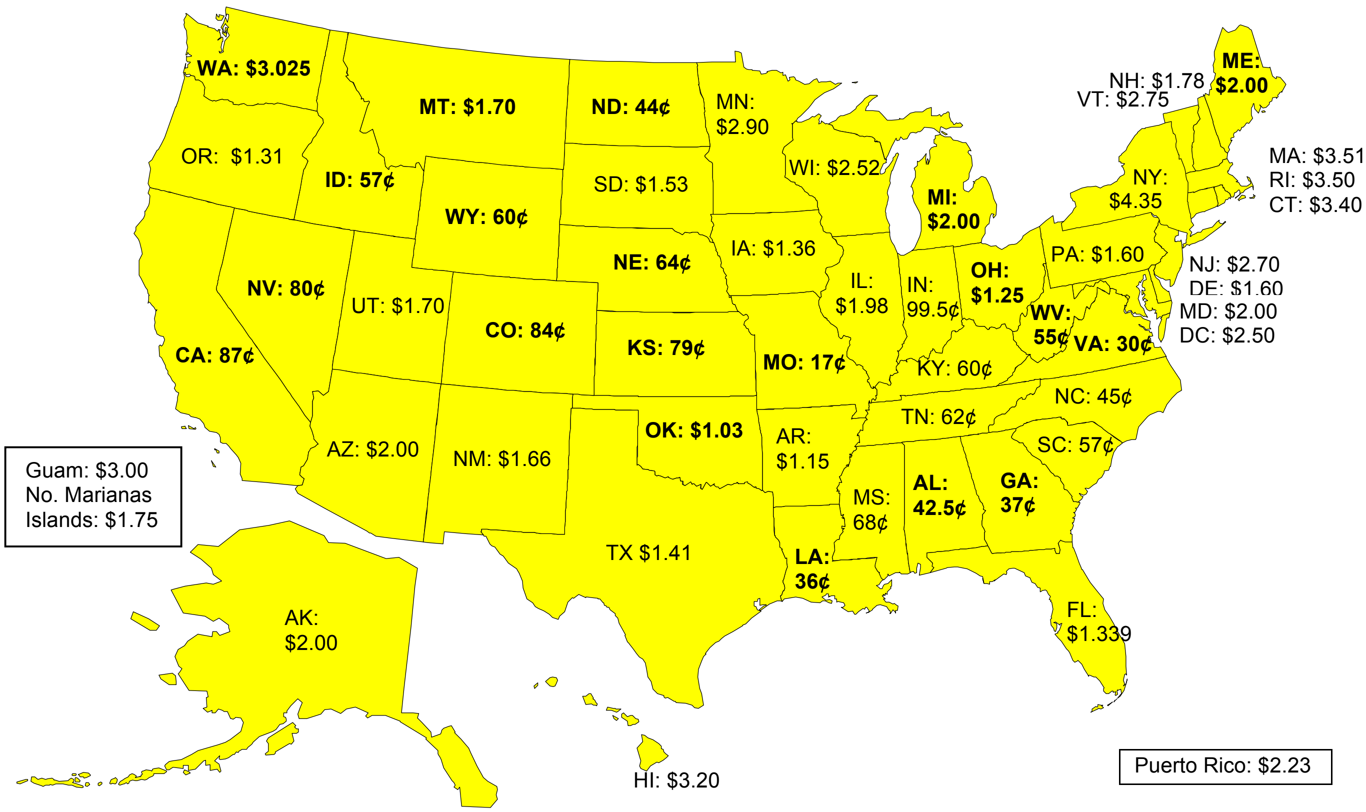
Exhibit 4

MAP OF STATE CIGARETTE TAX RATES

Average State Cigarette Tax: $1.54 per Pack

Average Cigarette Tax in Major Tobacco States: 48.5 cents per Pack

Average Cigarette Tax in Non-Tobacco States: $1.68 per Pack



Map shows state cigarette tax rates in effect as of January 1, 2015 (MN inflation adjustment on 1/1/2015). The states that have not increased their cigarette tax rate since 2005 or earlier are marked in bold. Currently, 30 states, DC, Puerto Rico, the Northern Marianas, and Guam have cigarette tax rates of $1.00 per pack or higher; 15 states, DC, Puerto Rico, and Guam have cigarette tax rates of $2.00 per pack or higher; six states and Guam have cigarette tax rates of $3.00 per pack or higher; and one state (NY) has a cigarette tax rate more than $4.00 per pack. The state averages listed above do not include Puerto Rico (with a population larger than those in 20 states) or any of the U.S. territories (such as Guam). The major tobacco states with extensive tobacco farming and, often, cigarette manufacturing, are NC, KY, VA, SC, TN, & GA. Federal cigarette tax is $1.01 per pack. Not shown are the special taxes or fees some states place on cigarettes made by Non-Participating Manufacturers (NPMs), the companies that have not joined the Master Settlement Agreement (MSA) between the states and the major cigarette companies. Some local governments also have their own cigarette taxes, such as Chicago ($1.18), Cook County, IL ($3.00), New York City ($1.50), Philadelphia ($2.00) and Anchorage, AK ($2.39). Nationally, estimated smoking-caused health costs and lost productivity totals $19.16 per pack.

Campaign for Tobacco-Free Kids, December 22, 2014 / Ann Boonn

For more information on state cigarette taxes and the benefits from increasing them, see http://www.tobaccofreekids.org/facts_issues/fact_sheets/policies/tax/us_state_local/.

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