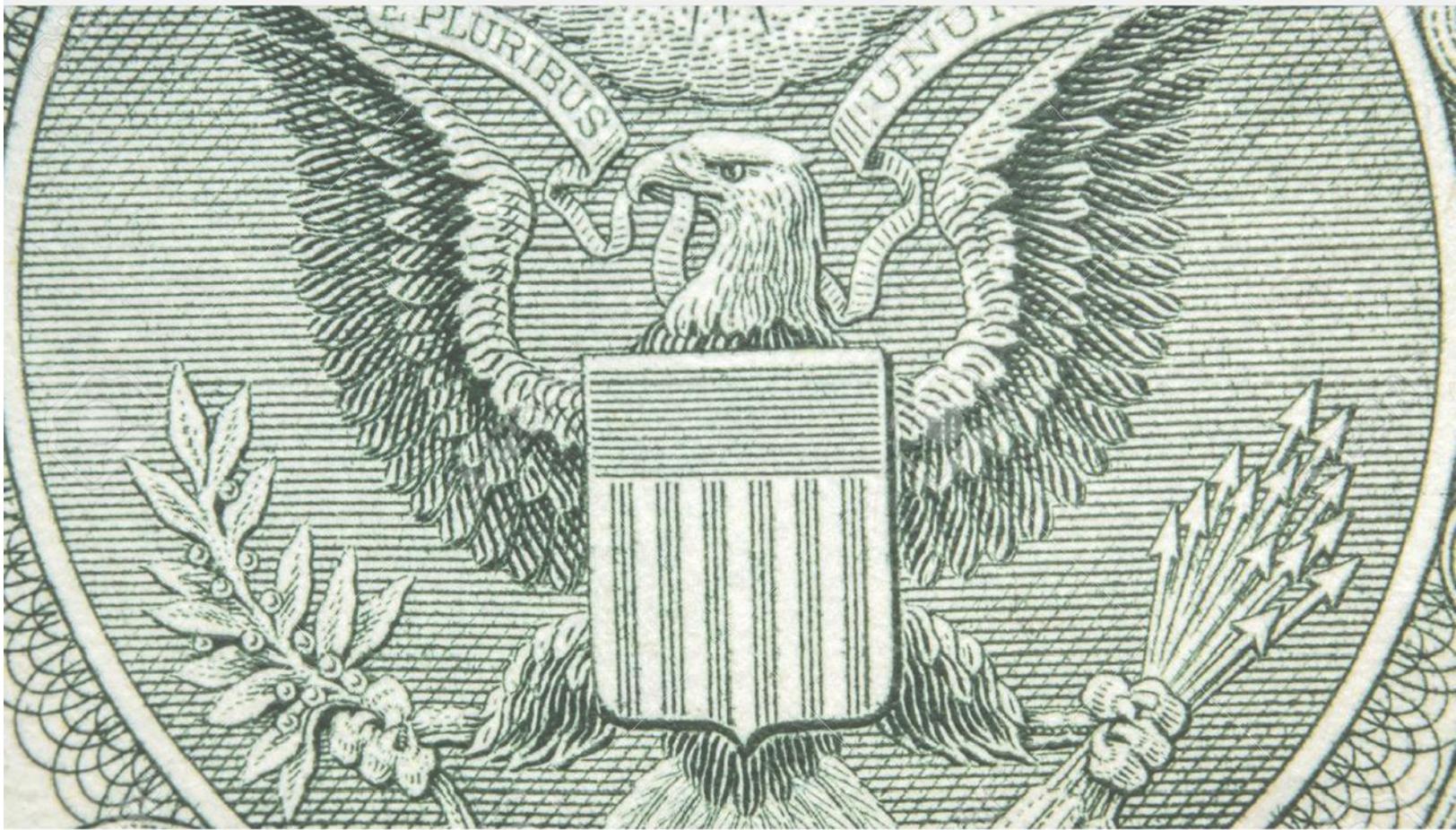


A Quick Take on Traditional and Electronic Cigarette Taxes



It's rare to find a truly popular tax, but the tobacco tax comes pretty close. Majorities of Democrats, Republicans and Independents support it. Not only can it bring in a decent amount of revenue, but states with higher tobacco [tax rates](#) tend to have lower [smoking rates](#). Tobacco is taxed by all levels of government. The federal government does so on a "unit" basis, imposing a tax of \$50.33 for every 1,000 units of cigarettes sold (\$1.01 per pack). All states levy an excise tax on cigarettes, and a few states allow localities to tax on them, too. Most state cigarette taxes are ad valorem taxes based on the wholesale price (i.e., the price of bulk sales from manufacturers to distributors) rather than retail price, but some are based on weight. Washington, D.C., has the highest cigarette tax rate at \$4.98 per pack (roughly one quarter per cigarette), while Missouri has the lowest tax rate of \$0.17 per pack (\$0.0085 per cigarette). The average state cigarette tax rate is [\\$1.81 per pack](#).

"Sin" taxes including the tobacco tax are meant to cover the costs of negative externalities associated with the consumption or production of a good. Cigarettes are strongly correlated with cancer and other health issues, which are expensive to treat and add to the costs of programs such as Medicare and Medicaid. The excise tax on tobacco consumption helps offset those costs. Increasing the price of tobacco products is also meant to discourage consumption and improve public health. For states facing tight budget conditions, however, the rationale behind increasing cigarette tax rates is more about raising revenue. Because cigarette taxes have such popular support, raising these taxes isn't as hard of a sell as other, broad-based taxes. In 2019 alone, three states (Illinois, Maine and New Mexico) increased cigarette taxes and at least a few states have enacted increases every year over the last five years.

The win-win nature of the cigarette tax isn't always straightforward. If the tax works as advertised and discourages the consumption of cigarettes, then tying the revenue to growing spending categories could lead to funding gaps. Using the tax as a budgetary Band-Aid can also conflict with the tax's public health aims. Only a [few states](#) couple their cigarette taxes with statutory requirements that dedicate the revenue toward tobacco control programs.

High cigarette tax rates can also have the unintended consequence of cultivating a growing illicit tobacco market. The [Mackinac Center](#) estimated that in New York, the state with the second-highest cigarette tax rate, cigarette smuggling accounts for nearly 57% of total cigarette consumption. States have taken steps to combat black market tobacco products; most require tobacco tax stamps to be affixed to cigarette cartons before they can be sold legally, signifying proof of tax payment. However, most tax stamps are simple paper stamps and can be subject to counterfeiting. Only four states have adopted measures that require tax stamps to include "high-tech" features such as [encryption, holograms and scannable barcodes](#).

Attention has centered on the extent of the cigarette tax's regressivity, and whether tax revenue comes primarily from the poor, who tend to smoke more. Proponents of higher rates claim that because low-income individuals are more sensitive to price increases, higher taxes make them the most likely to quit and, consequently, the primary beneficiaries of the tax. But [evidence](#) shows that, in spite of price increases, the gap in smoking rates between lower- and higher-income groups is growing. The New York State Department of Health [found](#) that between 2000 and 2009, smoking prevalence in the state declined significantly, yet no changes were noted for adults with low incomes, poor education and poor mental health. CDC [data](#) shows that members of these demographics struggle the most to beat their addiction.

