



July 13, 2007

State Tobacco Tax Rates Have Skyrocketed Since Last Federal Tax Increase

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Fiscal Fact No. 93

There is a proposal before Congress to raise the federal cigarette tax from its current rate, 39 cents per pack, to \$1.00. To justify such a large leap, 156 percent, some have argued that because the rate has been the same for five years, its real value (adjusted for inflation) has fallen. To say the least, this is a strange argument, considering how rapidly state cigarette taxes have risen during those five years. Thirty-six states have increased cigarette taxes since 2002, some more than once. The trend is not slowing, as five states have already increased their tax in 2007.¹

State lawmakers have often used a legislative trick to enact steep tax hikes on tobacco: linking a cigarette tax hike to a popular spending program that they want to take credit for. Usually the spending program has nothing to do with smoking. This is exactly what is happening at the federal level now, as Congress proposes to link cigarette taxes to a popular health insurance program, the State Children's Health Insurance Program (SCHIP).

Table 1 presents the average total tax rate per pack of cigarettes each year from 2002 to 2007 at both the state level and federal level. While the federal tax has remained unchanged, states have continued to raid the pockets of cigarette smokers.

Table 1
Cigarettes Taxes Have Skyrocketed Since Last Federal Tax Increase

Year	Average State-Level Tax per Pack	Federal Tax per Pack	Total Tax per Pack
2002	\$0.67	\$0.39	\$1.06
2003	\$0.71	\$0.39	\$1.10
2004	\$0.79	\$0.39	\$1.18
2005	\$0.89	\$0.39	\$1.28
2006	\$0.99	\$0.39	\$1.38
2007	\$1.03	\$0.39	\$1.42

Note: The state average is weighted according to the number of smokers residing in each state. Sources: Centers for Disease Control, Census Bureau, CCH, and Tax Foundation calculations

Since 2002, the average state tax per pack of cigarettes has increased from 67 cents per pack to \$1.03. Including all taxes, then, the average pack sold in the U.S. was taxed \$1.06 in 2002, and now it's taxed \$1.42. That's a 34-percent increase, more than double the rate of inflation, impeaching any argument that cigarette taxes have somehow lost their bite in recent years.

Conclusion

Cigarettes should be taxed according to the negative external costs they impose on society, and nothing more or less. However, nearly all studies conclude that the current federal tax rate of 39 cents raises enough revenue to offset those costs.² States have decided to pile on in recent years, exaggerating the costs of smoking to justify raising more revenue than their voters are willing to pay in general taxes. In effect, politicians are willing to impose taxes on the few, even though smokers are a small, low-income minority, so that they can provide free government benefits for the many.

Notes

1. Connecticut, Delaware, Indiana, Iowa and Tennessee increased their tax rates in 2007. Alaska's, Hawaii's and Vermont's rates will rise this year due to previously enacted legislation.
2. See Patrick Fleenor, "Who Bears the Ancillary Cost of Tobacco Use," *Tax Foundation Background Paper*, No. 36, (January 2001), available at <http://www.taxfoundation.org/research/show/121.html>.

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