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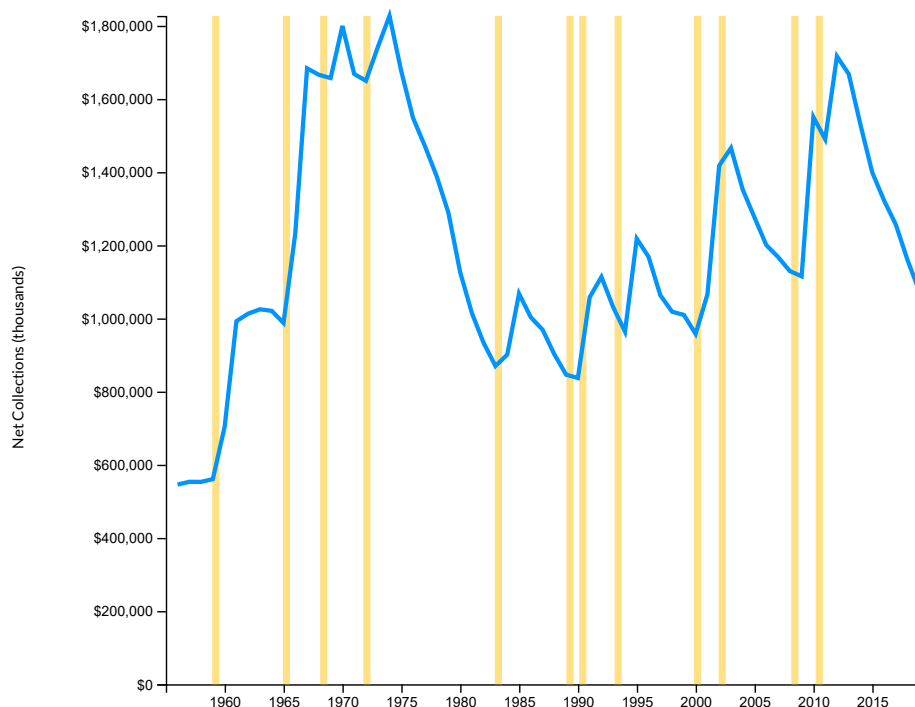
## How Stable is Cigarette Tax Revenue?

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Choose a State

New York ▼

Inflation Adjusted



Cigarette excise taxes have been a source of state revenue for decades, but in recent years, reliance on these taxes has increased. Using data from Orzechowski and Walker's annual compendium *The Tax Burden on Tobacco*, this web tool shows how cigarette tax revenues have changed between 1955 and 2018.

For illustration, the tool defaults by looking at New York. **The blue line** shows total cigarette tax revenue, and **yellow lines** show when a cigarette tax rate increase occurred. **Hovering over a yellow line** shows how the tax rate changed.

Across almost all states, tax rate hikes are met with a momentary bump in revenue, followed by a falloff in collections in future years. **Clicking the inflation adjustment box** shows how volatile this revenue is in real terms.

There are several factors contributing to this trend. The first is that U.S. cigarette consumption per capita has declined in the decades since the Surgeon General's first report on smoking was released in 1965. Since the 1980s, the number of cigarettes sold has steadily declined. With fewer cigarettes sold, less cigarette tax revenue is collected.

The second reason is that in many states, when cigarette tax rates are increased sizably above neighboring states, consumers are more inclined to buy cigarettes elsewhere. Cigarette smugglers are known to buy cigarettes in low-tax jurisdictions to resell them illegally in high-tax jurisdictions, maintaining a competitive advantage over the legal market by not collecting the excise tax. Cigarette smuggling is especially prominent in New York, where the tax is \$4.35 per pack (with an add-on tax in New York City). Approximately 57 percent of cigarettes sold in New York are smuggled in from another location, with states like Arizona, Washington, New Mexico, and Minnesota falling not far behind. This cross-border effect considerably reduces the productivity (from a revenue standpoint) of cigarette taxes over time.

Because cigarette tax revenue is so unstable, policymakers and taxpayers should be skeptical of proposals to tie cigarette tax increases to the funding of continual government services, as collections are likely to decline over time.

[Click here to see how high cigarette taxes are in your state.](#)

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