

MICHIGAN'S CIGARETTE AND TOBACCO TAXES

2009 Statistical Update



Office of Revenue and Tax Analysis
Michigan Department of Treasury
September 2010

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Acknowledgments

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SUMMARY

This report provides updated information on Michigan's tobacco taxes. Michigan has levied an excise tax on cigarettes since 1947. The tax was increased by 50 cents to \$1.25 per pack of 20 cigarettes in August 2002, and increased again by 75 cents to \$2.00 per pack in July 2004. The Michigan tax is in addition to the federal cigarette tax of \$1.01 per pack. The state tax on tobacco products other than cigarettes is 32 percent of the wholesale price.

Tobacco tax revenue totaled \$1,041.5 million in fiscal year (FY) 2009, down \$32.1 million from FY 2008. This represented a 3.0 percent decrease in tobacco tax revenue compared to FY 2008. Tobacco taxes now account for 4.65 percent of all Michigan taxes, a higher share than in 2008 due to steep declines in sales, income, and business taxes. Exhibits 1 through 3 compare Michigan tobacco tax collections over the past thirty years.

Tobacco taxes provide revenue for a number of purposes. For FY 2009, 39.4 percent of tobacco tax revenue was earmarked to the School Aid Fund and 34.1 percent of revenue was earmarked to the Medicaid health program for low-income residents. Exhibit 4 presents the distribution of FY 2009 revenues by fund. Exhibit 5 highlights the growth in tobacco taxes over the past seven years, separating tobacco tax revenue between cigarettes and other tobacco products (cigars, snuff, and pipe, chewing, and roll-your-own smoking tobacco).

Cigarette consumption has continued to decline in recent years. Taxable cigarette sales decreased in FY 2009 by an estimated 3.8 percent to 500.3 million packs sold taxed. The higher federal tax that took effect in April 2009 accounts for some of the decline in taxable sales as the higher cigarette prices that result reduce consumption. However, the decline in taxable cigarette sales for 2009 was smaller than expected in response to the federal tax increase. State revenue forecasts assumed a 5.4 percent decline for 2009. Taxable cigarette sales are down 36.1 percent since 2001, when the cigarette tax was 75 cents per pack of 20 cigarettes. Per capita sales have also declined to 50.2 packs in 2009, compared to 52.0 packs in 2008 and 78.2 packs in 2001. Exhibits 6 and 7 present taxable cigarette sales over the past thirty years along with per capita consumption estimates.

At least some of the recent decline in the sales of taxable packs is likely due to smokers who have purchased cigarettes that have not been taxed by Michigan. A common source for these purchases is through Internet sites that advertise "tax-free" cigarettes. The Michigan Tobacco Products Tax Act prohibits the possession of cigarettes within Michigan unless the cigarettes were subject to the Michigan tax on tobacco products. Recent federal legislation, the Prevent All Cigarette Trafficking Act of 2010, will prohibit shipments of illegal cigarettes through the U.S. Postal Service, making the on-line sale of cigarettes with the intent to avoid state cigarette tax more difficult. More information about enforcement of Michigan's tobacco tax laws and a citizen's tax liability for cigarettes purchased over the Internet may be found at: http://www.michigan.gov/taxes/0,1607,7-238-43542_43548---,00.html.

The federal cigarette tax raised \$8.5 billion in the year ending June 2009, up from \$6.9 billion in the preceding year, due to an increase in the federal tax on cigarettes that took effect on April 1, 2009. The Children's Health Insurance Program Reauthorization Act of 2009 raised federal taxes on all tobacco products. Although tax revenue increased, there was a 5.2 percent decline in national

cigarette consumption, larger than the average decline of 2.0 percent per year from 1980 to 2009.¹ The higher federal tax on other tobacco products (OTP) accounts for at least some of the increase in Michigan's tax revenue from OTP (see Exhibit 5) since the federal tax is included in the wholesale price of OTP. Exhibit 8 provides historical information on federal tax collections and national cigarette consumption.

Forty-nine states have increased their cigarette tax rate since 1990. In 2010, Michigan had the 10th highest state tax rate in the nation at \$2.00 (tied with Alaska, Arizona, Maine, and Maryland). In all, 14 states and the District of Columbia have tax rates of \$2.00 per pack or higher. Generally states with higher taxes have fewer cigarettes sold subject to the tax, although the relationship is imprecise. For example, Michigan has a relatively high cigarette tax but ranks 28th in the nation in taxable cigarette sales per capita. By comparison, California and Colorado both have lower cigarette tax rates and rank lower in sales per capita. Exhibits 9 through 13 compare cigarette taxes, prices, and taxable cigarette sales across the U.S.

Michigan's tax on (OTP) has risen from 16 percent of the wholesale price from May 1994 to August 2002, to 32 percent of the price following the 2004 tax increase. The higher tax rate on OTP has contributed to increased tax revenues. While the tax rate on OTP has doubled in recent years, it remains significantly lower than the tax rate on cigarettes as a percentage of the price and this difference has increased the sales of certain types of OTP such as little cigars and roll-your-own smoking tobacco. Exhibit 14 compares the state tax rates on OTP, as well as providing recent data on tax collections and usage.

Adults in Michigan are more likely to smoke cigarettes, on average, than adults in other states. The overall average prevalence in Michigan among adults was 20.4 percent in 2008, higher than the median value across the U.S. states of 18.4 percent. Men are more likely to smoke than women, both in Michigan and across the U.S. Exhibit 15 compares the overall prevalence of smoking and provides the distribution by gender for all fifty states.

The decline in taxable cigarette sales in Michigan following the tax increases enacted in 2002 and 2004 suggests that cigarette smoking may also be declining. Recent survey data support that conclusion. Exhibit 16 compares the Michigan cigarette tax with the survey data on the prevalence of smoking among high school students and adults. Both groups have seen declines in the prevalence of smoking as the tax rate has risen. The decline has been larger among high school students, with the prevalence of smoking falling from 38.2 percent in 1997 to 17.0 percent in 2005 before increasing somewhat to 18.8 percent in 2009. The prevalence among adults has fallen from 26.1 percent in 2001 to 19.8 percent in 2009, a decline of 24.1 percent.

More reports on Michigan's tobacco taxes are available on the Department of Treasury's website at www.michigan.gov/treasury. If you have questions on this report, please contact Scott Darragh at (517) 373-2697.

¹ Orzechowski and Walker, *The Tax Burden on Tobacco*, vol.42.

Exhibit 1
Tobacco Tax Revenues
(thousands)

| Fiscal Year | Rate (Cents) | Nominal Tax Revenue ⁽¹⁾ | Total Tax Revenue | Revenue Per Penny of Tax | Inflation-Adjusted Revenue ⁽²⁾ | Tax as Percent of Total Taxes |
|--------------------|---------------------|-------------------------------------------|--------------------------|---------------------------------|--------------------------------------------------|--------------------------------------|
| 1980 | 11 | 141,205 | 6,126,400 | 12,837 | \$336,866 | 2.30 |
| 1981 | 11 | 152,827 | 6,195,020 | 13,893 | 333,688 | 2.47 |
| 1982 | 11/21 | 188,003 ⁽³⁾ | 6,371,191 | 12,396 | 394,411 | 2.95 |
| 1983 | 21 | 242,068 | 7,337,434 | 11,527 | 493,586 | 3.30 |
| 1984 | 21 | 240,957 | 8,405,736 | 11,474 | 475,134 | 2.87 |
| 1985 | 21 | 241,037 | 8,958,027 | 11,478 | 459,270 | 2.69 |
| 1986 | 21 | 236,489 | 9,270,805 | 11,261 | 444,363 | 2.55 |
| 1987 | 21 | 237,382 | 9,591,731 | 11,304 | 432,465 | 2.47 |
| 1988 | 21/25 | 264,496 ⁽³⁾ | 10,285,540 | 11,021 | 463,599 | 2.57 |
| 1989 | 25 | 267,016 | 10,850,896 | 10,681 | 444,290 | 2.46 |
| 1990 | 25 | 255,339 | 11,062,400 | 10,214 | 404,047 | 2.31 |
| 1991 | 25 | 259,160 | 10,865,460 | 10,366 | 396,229 | 2.39 |
| 1992 | 25 | 246,005 | 11,267,492 | 9,840 | 368,367 | 2.18 |
| 1993 | 25 | 243,648 | 11,891,105 | 9,746 | 355,168 | 2.05 |
| 1994 | 25/75 | 395,715 ⁽³⁾ | 14,014,810 | 8,634 | 559,211 | 2.82 |
| 1995 | 75 | 619,401 | 17,009,114 | 8,259 | 848,221 | 3.64 |
| 1996 | 75 | 580,772 | 18,090,458 | 7,744 | 774,982 | 3.21 |
| 1997 | 75 | 546,026 | 18,970,316 | 7,280 | 710,903 | 2.88 |
| 1998 | 75 | 566,046 | 20,149,025 | 7,547 | 720,827 | 2.81 |
| 1999 | 75 | 615,129 | 21,472,775 | 8,202 | 763,736 | 2.86 |
| 2000 | 75 | 604,212 | 22,363,369 | 8,056 | 724,115 | 2.70 |
| 2001 | 75 | 596,082 | 21,872,223 | 7,948 | 695,529 | 2.73 |
| 2002 | 75/125 | 669,914 ⁽³⁾ | 21,455,308 | 8,039 | 762,017 | 3.12 |
| 2003 | 125 | 891,775 | 21,718,157 | 7,134 | 994,371 | 4.11 |
| 2004 | 125/200 | 992,793 ⁽³⁾ | 22,097,228 | 6,906 | 1,089,695 | 4.49 |
| 2005 | 200 | 1,179,871 | 23,121,664 | 5,899 | 1,258,381 | 5.10 |
| 2006 | 200 | 1,169,005 | 23,364,924 | 5,845 | 1,210,009 | 5.00 |
| 2007 | 200 | 1,129,226 | 23,487,484 | 5,646 | 1,148,225 | 4.81 |
| 2008 | 200 | 1,073,650 | 25,143,535 | 5,368 | 1,067,085 | 4.27 |
| 2009 | 200 | 1,041,541 | 22,384,854 | 5,208 | 1,041,541 | 4.65 |

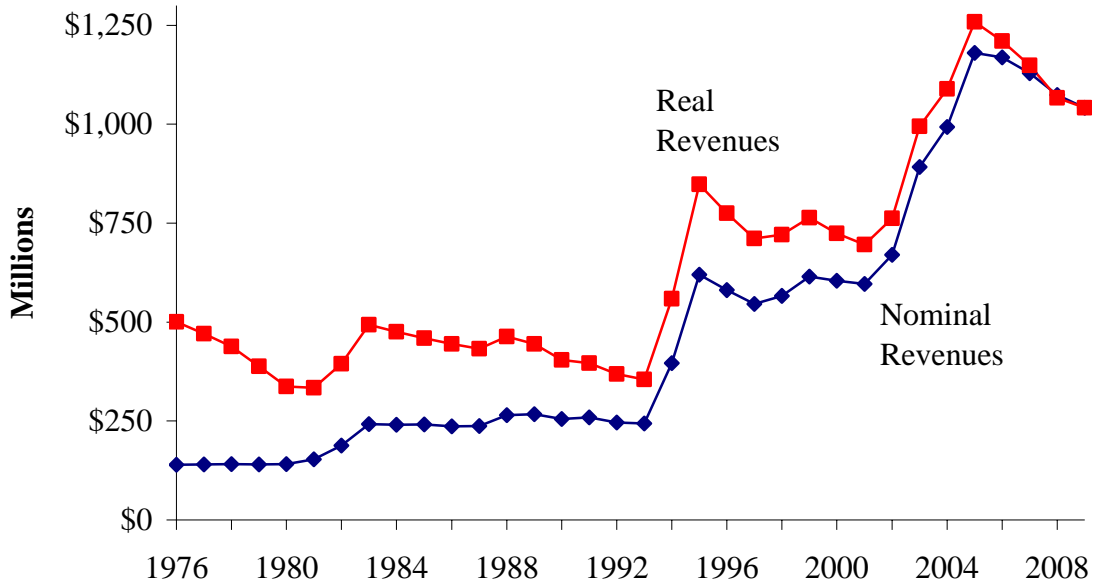
(1) After 1994 figures include tax from other tobacco products.

(2) Adjusted for inflation to 2009 dollars.

(3) Includes approximately \$11 million collected from temporary inventory tax in 1982, \$5 million in 1988, \$22 million in 1994, \$22 million in 2002, and \$28 million in 2004.

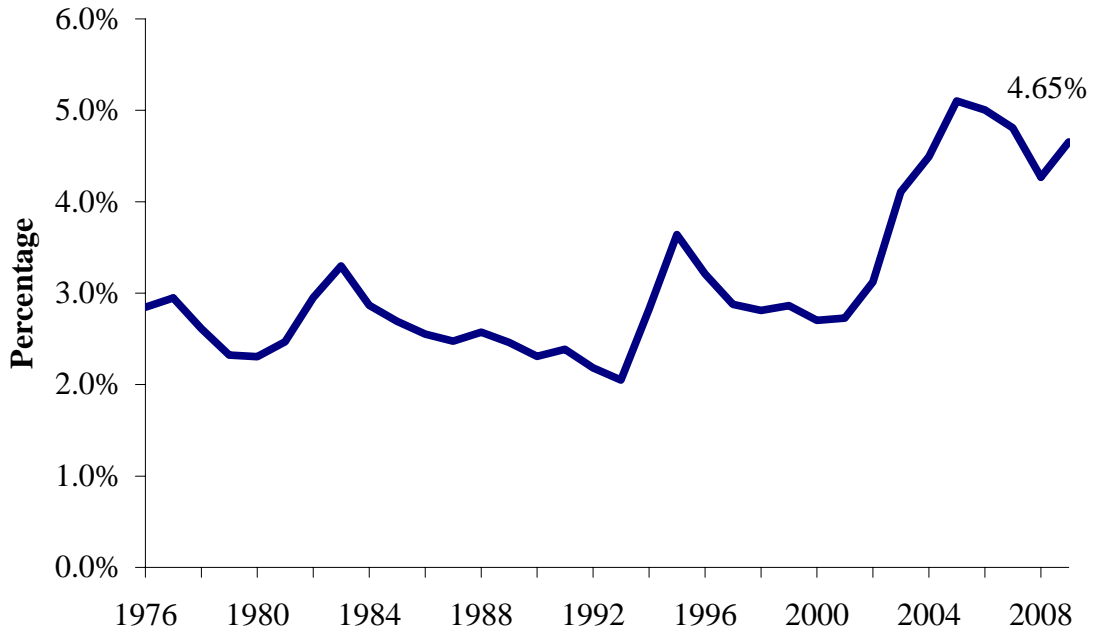
Sources: Michigan Department of Management and Budget and U.S. Bureau of Labor Statistics.

**Exhibit 2
Michigan Cigarette Tax Collections**



Source: Michigan Department of Management and Budget.

**Exhibit 3
Michigan Cigarette Tax Revenue as Share
of Total State Tax Revenue**



Source: Michigan Department of Management and Budget.

Exhibit 4
Distribution of Tobacco Tax Revenue
FY 2009

| <u>Distribution</u> | <u>FY 2009 Revenue (thousands)</u> | <u>Percent of Revenue</u> |
|------------------------------|--------------------------------------------|-------------------------------|
| General Fund/General Purpose | \$208,393 | 20.0% |
| School Aid Fund | \$410,429 | 39.4% |
| Health and Safety Fund | \$24,580 | 2.4% |
| Healthy Michigan Fund | \$37,212 | 3.6% |
| Medicaid Benefit Trust Fund | \$354,722 | 34.1% |
| Wayne County - Indigent Care | \$6,204 | 0.6% |
| Total | \$1,041,541 | 100.0% |

Source: Office of Revenue and Tax Analysis, Michigan Department of Treasury

Exhibit 5
Distribution of Tobacco Tax Revenue by Product
Fiscal Years 2001 – 2009

| <u>Year</u> | <u>Tax Rate</u> | | <u>Tax Revenue (thousands)</u> | | |
|---------------------|---------------------------------|---------------------------|--------------------------------|------------|--------------|
| | <u>Cigarette</u> ⁽¹⁾ | <u>OTP</u> ⁽²⁾ | <u>Cigarette</u> | <u>OTP</u> | <u>Total</u> |
| 2001 | \$0.75 | 16% | \$579,151 | \$16,931 | \$596,082 |
| 2002 | \$0.75/\$1.25 | 16%/20% | \$650,880 | \$19,034 | \$669,914 |
| 2003 | \$1.25 | 20% | \$868,963 | \$22,812 | \$891,775 |
| 2004 ⁽³⁾ | \$1.25/\$2.00 | 20%/32% | \$964,193 | \$28,600 | \$992,793 |
| 2005 | \$2.00 | 32% | \$1,139,605 | \$40,266 | \$1,179,871 |
| 2006 | \$2.00 | 32% | \$1,131,153 | \$37,852 | \$1,169,005 |
| 2007 | \$2.00 | 32% | \$1,084,006 | \$45,220 | \$1,129,226 |
| 2008 | \$2.00 | 32% | \$1,024,124 | \$49,526 | \$1,073,650 |
| 2009 | \$2.00 | 32% | \$985,654 | \$55,887 | \$1,041,541 |

Notes:

- (1) Tax rate is the tax per pack of 20 cigarettes.
- (2) OTP represents "Other Tobacco Products," which are taxed as a percentage of the wholesale price.
- (3) Total revenue and cigarette revenue for 2002 and 2004 includes revenue from the inventory tax.

Source: Office of Revenue and Tax Analysis, Michigan Department of Treasury

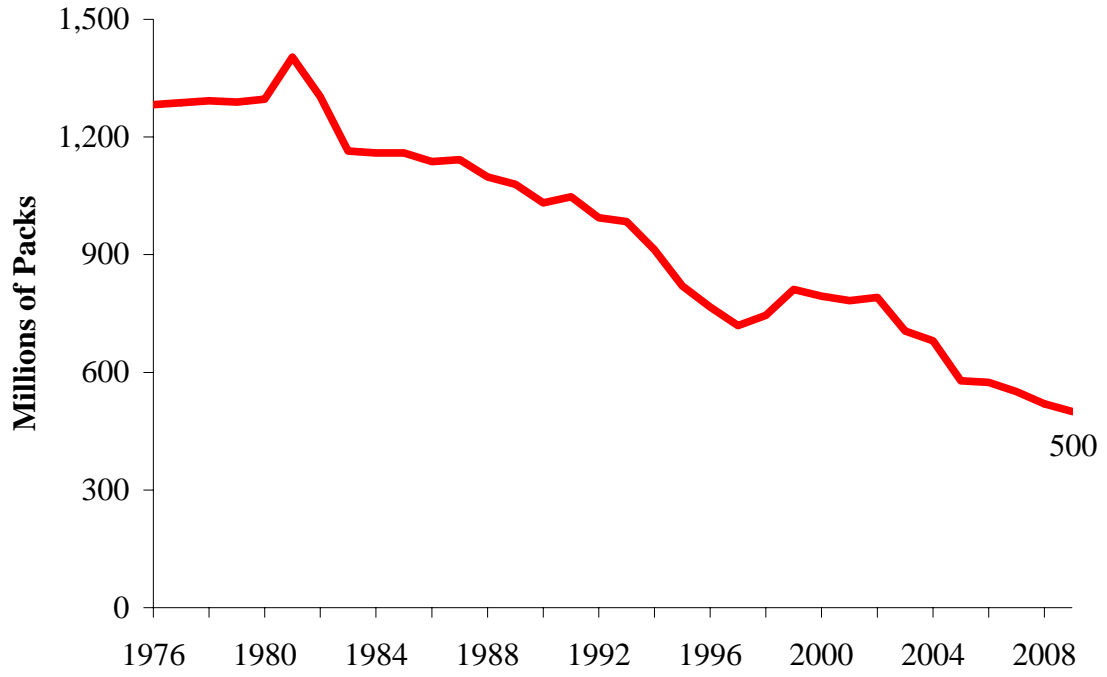
**Exhibit 6
Cigarette Packs Sold Taxed**

| Year | Average Retail Price | Percentage Change | Calculated Packs Sold Taxed (000s) | Percentage Change | Calculated Per Capita Packs Sold Taxed | Percentage Change |
|------------------------------------------|-----------------------------|--------------------------|-------------------------------------------|--------------------------|-----------------------------------------------|--------------------------|
| 1980 | 0.62 | 3.3 | 1,296,648 | 0.6 | 140.0 | 0.6 |
| 1981 | 0.68 | 9.7 | 1,403,370 | 8.2 | 152.4 | 8.9 |
| 1982 | 0.88 | 29.4 | 1,302,866 | -7.2 | 142.9 | -6.2 |
| 1983 | 0.97 | 10.2 | 1,164,348 | -10.6 | 128.7 | -10.0 |
| 1984 | 1.01 | 4.1 | 1,159,004 | -0.5 | 128.1 | -0.5 |
| 1985 | 1.06 | 5.0 | 1,159,389 | 0.0 | 127.7 | -0.3 |
| 1986 | 1.11 | 4.7 | 1,137,513 | -1.9 | 124.6 | -2.4 |
| 1987 | 1.22 | 9.9 | 1,141,809 | 0.4 | 124.3 | -0.3 |
| 1988 | 1.33 | 9.0 | 1,098,387 | -3.8 | 119.1 | -4.1 |
| 1989 | 1.44 | 8.3 | 1,078,853 | -1.8 | 116.6 | -2.1 |
| 1990 | 1.45 | 0.7 | 1,031,673 | -4.4 | 110.8 | -5.0 |
| 1991 | 1.77 | 22.1 | 1,047,111 | 1.5 | 111.5 | 0.6 |
| 1992 | 1.85 | 4.5 | 993,960 | -5.1 | 105.0 | -5.8 |
| 1993 | 1.63 | -11.9 | 984,436 | -1.0 | 103.3 | -1.6 |
| 1994 | 2.24 | 37.4 | 912,267 | -7.3 | 95.2 | -7.9 |
| 1995 | 2.29 | 2.2 | 820,601 | -10.0 | 84.9 | -10.8 |
| 1996 | 2.34 | 2.2 | 766,580 | -6.6 | 78.7 | -7.3 |
| 1997 | 2.43 | 3.8 | 719,355 | -6.2 | 73.5 | -6.6 |
| 1998 | 2.61 | 7.5 | 745,417 | 3.6 | 75.9 | 3.3 |
| 1999 | 3.34 | 27.7 | 810,939 | 8.8 | 82.2 | 8.3 |
| 2000 | 3.46 | 3.5 | 794,464 | -2.0 | 79.8 | -2.9 |
| 2001 | 3.79 | 9.8 | 782,589 | -1.5 | 78.2 | -2.0 |
| 2002 | 4.35 | 14.6 | 791,075 | 1.1 | 78.8 | 0.8 |
| 2003 | 4.33 | -0.3 | 705,293 | -10.8 | 70.1 | -11.1 |
| 2004 | 5.09 | 17.4 | 680,957 | -3.5 | 67.5 | -3.7 |
| 2005 | 5.10 | 0.3 | 578,480 | -15.0 | 57.3 | -15.1 |
| 2006 | 5.29 | 3.8 | 574,189 | -0.7 | 56.9 | -0.7 |
| 2007 | 5.35 | 1.1 | 550,257 | -4.2 | 54.7 | -3.9 |
| 2008 | 5.41 | 1.2 | 519,860 | -5.5 | 52.0 | -5.1 |
| 2009 | 6.14 | 13.4 | 500,332 | -3.8 | 50.2 | -3.4 |
| Annual Average Change 1980 - 2009 | | 8.2% | | -3.2% | | -3.5% |

Note: Average retail price data are from Orzechowski and Walker for November 1 of each year.

Source: Office of Revenue and Tax Analysis, Michigan Department of Treasury.
Population data are from Census Bureau.

Exhibit 7
Annual Packs Sold Taxed



Source: Office of Revenue and Tax Analysis, Michigan Department of Treasury.

Exhibit 8
National Cigarette Tax Trends

| Year | Federal Tax Rate Per Pack (Cents) | Federal Revenues (Millions) ⁽¹⁾ | Consumption (Millions of Packs) | Percent Change in Consumption |
|----------------------------------------------|------------------------------------------------------|-----------------------------------------------------------|------------------------------------------------|----------------------------------------------|
| 1980 | 8.0 | 2,604.4 | 30,288.3 | -1.5 |
| 1981 | 8.0 | 2,488.2 | 31,666.4 | 4.6 |
| 1982 | 8.0 | 2,496.1 | 31,611.8 | -0.2 |
| 1983 | 8.0/16.0 ⁽²⁾ | 3,424.4 | 29,991.1 | -5.1 |
| 1984 | 16.0 | 4,749.2 | 29,837.0 | -0.5 |
| 1985 | 16.0 | 4,442.5 | 29,770.9 | -0.2 |
| 1986 | 16.0 | 4,430.8 | 29,051.2 | -2.4 |
| 1987 | 16.0 | 4,752.3 | 28,965.5 | -0.3 |
| 1988 | 16.0 | 4,466.5 | 27,790.8 | -4.1 |
| 1989 | 16.0 | 4,237.8 | 26,487.5 | -4.7 |
| 1990 | 16.0 | 4,069.8 | 25,436.5 | -4.0 |
| 1991 | 16.0/20.0 ⁽²⁾ | 4,754.6 | 25,376.5 | -0.2 |
| 1992 | 20.0 | 5,043.0 | 25,215.7 | -0.6 |
| 1993 | 20.0/24.0 ⁽²⁾ | 5,528.0 | 24,730.1 | -1.9 |
| 1994 | 24.0 | 5,599.5 | 23,350.0 | -5.6 |
| 1995 | 24.0 | 5,716.8 | 23,818.0 | 2.0 |
| 1996 | 24.0 | 5,679.1 | 23,660.0 | -0.7 |
| 1997 | 24.0 | 5,743.4 | 23,929.2 | 1.1 |
| 1998 | 24.0 | 5,559.2 | 23,163.4 | -3.2 |
| 1999 | 24.0 | 5,193.1 | 21,637.9 | -6.6 |
| 2000 | 24.0/34.0 ⁽²⁾ | 6,230.3 | 21,325.0 | -1.4 |
| 2001 | 34.0 | 7,080.5 | 21,250.0 | -0.4 |
| 2002 | 39.0 ⁽²⁾ | 8,036.9 | 21,310.0 | 0.3 |
| 2003 | 39.0 | 7,798.5 | 20,225.0 | -5.1 |
| 2004 | 39.0 | 7,702.6 | 19,790.0 | -2.2 |
| 2005 | 39.0 | 7,566.6 | 19,370.0 | -2.1 |
| 2006 | 39.0 | 7,480.0 | 19,159.8 | -1.1 |
| 2007 | 39.0 | 7,267.7 | 18,635.1 | -2.7 |
| 2008 | 39.0 | 6,890.2 | 17,668.0 | -5.2 |
| 2009 | 101.0 | 8,512.3 | 16,742.6 | -5.2 |
| Annual Average Change 1980 - 2009 | | 4.2% | -2.0% | |

(1) Based on year ending June 30.

(2) Rate changed during year.

Source: Orzechowski and Walker.

Exhibit 9
State Cigarette Tax Rate Trends

| State | Tax Rate (Cents) | | | Change, 1990 - 2010 | |
|---------------------|------------------|-------------|--------------|---------------------|--------------|
| | 1980 | 1990 | 2010 | Actual | Percent |
| Alabama | 12.0 | 16.5 | 42.5 | 26.0 | 157.6 |
| Alaska | 8.0 | 29.0 | 200.0 | 171.0 | 589.7 |
| Arizona | 13.0 | 18.0 | 200.0 | 182.0 | 1,011.1 |
| Arkansas | 17.8 | 21.0 | 115.0 | 94.0 | 447.6 |
| California | 10.0 | 35.0 | 87.0 | 52.0 | 148.6 |
| Colorado | 10.0 | 20.0 | 84.0 | 64.0 | 320.0 |
| Connecticut | 21.0 | 40.0 | 300.0 | 260.0 | 650.0 |
| Delaware | 14.0 | 14.0 | 160.0 | 146.0 | 1,042.9 |
| Florida | 21.0 | 24.0 | 133.9 | 109.9 | 457.9 |
| Georgia | 12.0 | 12.0 | 37.0 | 25.0 | 208.3 |
| Hawaii | 14.0 | 42.0 | 300.0 | 258.0 | 614.3 |
| Idaho | 9.1 | 18.0 | 57.0 | 39.0 | 216.7 |
| Illinois | 12.0 | 30.0 | 98.0 | 68.0 | 226.7 |
| Indiana | 10.5 | 15.5 | 99.5 | 84.0 | 541.9 |
| Iowa | 13.0 | 31.0 | 136.0 | 105.0 | 338.7 |
| Kansas | 11.0 | 24.0 | 79.0 | 55.0 | 229.2 |
| Kentucky | 3.0 | 3.0 | 60.0 | 57.0 | 1,900.0 |
| Louisiana | 11.0 | 20.0 | 36.0 | 16.0 | 80.0 |
| Maine | 16.0 | 31.0 | 200.0 | 169.0 | 545.2 |
| Maryland | 10.0 | 13.0 | 200.0 | 187.0 | 1,438.5 |
| Massachusetts | 21.0 | 26.0 | 251.0 | 225.0 | 865.4 |
| Michigan | 11.0 | 25.0 | 200.0 | 175.0 | 700.0 |
| Minnesota | 18.0 | 38.0 | 156.0 | 118.0 | 310.5 |
| Mississippi | 11.0 | 18.0 | 68.0 | 50.0 | 277.8 |
| Missouri | 9.0 | 13.0 | 17.0 | 4.0 | 30.8 |
| Montana | 12.0 | 18.0 | 170.0 | 152.0 | 844.4 |
| Nebraska | 13.0 | 27.0 | 64.0 | 37.0 | 137.0 |
| Nevada | 10.0 | 35.0 | 80.0 | 45.0 | 128.6 |
| New Hampshire | 12.0 | 25.0 | 178.0 | 153.0 | 612.0 |
| New Jersey | 19.0 | 40.0 | 270.0 | 230.0 | 575.0 |
| New Mexico | 12.0 | 15.0 | 166.0 | 151.0 | 1,006.7 |
| New York | 15.0 | 39.0 | 435.0 | 396.0 | 1,015.4 |
| North Carolina | 2.0 | 2.0 | 45.0 | 43.0 | 2,150.0 |
| North Dakota | 12.0 | 30.0 | 44.0 | 14.0 | 46.7 |
| Ohio | 15.0 | 18.0 | 125.0 | 107.0 | 594.4 |
| Oklahoma | 18.0 | 23.0 | 103.0 | 80.0 | 347.8 |
| Oregon | 9.0 | 28.0 | 118.0 | 90.0 | 321.4 |
| Pennsylvania | 18.0 | 18.0 | 160.0 | 142.0 | 788.9 |
| Rhode Island | 18.0 | 37.0 | 346.0 | 309.0 | 835.1 |
| South Carolina | 7.0 | 7.0 | 57.0 | 50.0 | 714.3 |
| South Dakota | 14.0 | 23.0 | 153.0 | 130.0 | 565.2 |
| Tennessee | 13.0 | 13.0 | 62.0 | 49.0 | 376.9 |
| Texas | 18.5 | 41.0 | 141.0 | 100.0 | 243.9 |
| Utah | 10.0 | 23.0 | 170.0 | 147.0 | 639.1 |
| Vermont | 12.0 | 17.0 | 224.0 | 207.0 | 1,217.6 |
| Virginia | 2.5 | 2.5 | 30.0 | 27.5 | 1,100.0 |
| Washington | 16.0 | 34.0 | 302.5 | 268.5 | 789.7 |
| West Virginia | 17.0 | 17.0 | 55.0 | 38.0 | 223.5 |
| Wisconsin | 16.0 | 30.0 | 252.0 | 222.0 | 740.0 |
| Wyoming | 8.0 | 12.0 | 60.0 | 48.0 | 400.0 |
| U.S. Average | 12.7 | 23.0 | 142.5 | 119.5 | 519.0 |
| Federal Tax | 8.0 | 16.0 | 101.0 | 85.0 | 531.3 |

Sources: Orzechowski and Walker, Federation of Tax Administrators, and Campaign for Tobacco-Free Kids.
Tax rates for 2010 are those in effect on July 1.

Exhibit 10
State Comparisons, 2009 Cigarette Tax

| <u>State</u> | <u>Tax Rate (Cents) ⁽¹⁾</u> | <u>Rank</u> | <u>2009 Revenues (Thousands) ⁽²⁾</u> |
|----------------------|--------------------------------------------|-------------|-----------------------------------------------------|
| Alabama | 42.5 | 43 | \$149,746 |
| Alaska | 200.0 | 6 | 62,882 |
| Arizona | 200.0 | 6 | 371,477 |
| Arkansas | 115.0 | 24 | 148,826 |
| California | 87.0 | 30 | 920,204 |
| Colorado | 84.0 | 31 | 191,018 |
| Connecticut | 200.0 | 6 | 321,569 |
| Delaware | 115.0 | 24 | 125,387 |
| Florida | 33.9 | 47 | 426,711 |
| Georgia | 37.0 | 44 | 210,617 |
| Hawaii | 200.0 | 6 | 104,434 |
| Idaho | 57.0 | 40 | 45,510 |
| Illinois | 98.0 | 28 | 571,348 |
| Indiana | 99.5 | 27 | 500,770 |
| Iowa | 136.0 | 19 | 220,212 |
| Kansas | 79.0 | 33 | 108,641 |
| Kentucky | 60.0 | 38 | 196,124 |
| Louisiana | 36.0 | 45 | 131,009 |
| Maine | 200.0 | 6 | 139,173 |
| Maryland | 200.0 | 6 | 399,318 |
| Massachusetts | 251.0 | 4 | 562,776 |
| Michigan | 200.0 | 6 | 1,011,635 |
| Minnesota | 156.0 | 16 | 382,045 |
| Mississippi | 68.0 | 35 | 67,920 |
| Missouri | 17.0 | 49 | 97,731 |
| Montana | 170.0 | 15 | 81,852 |
| Nebraska | 64.0 | 36 | 68,244 |
| Nevada | 80.0 | 32 | 111,132 |
| New Hampshire | 133.0 | 21 | 190,829 |
| New Jersey | 257.5 | 3 | 728,053 |
| New Mexico | 91.0 | 29 | 58,893 |
| New York | 275.0 | 2 | 1,330,336 |
| North Carolina | 35.0 | 46 | 224,748 |
| North Dakota | 44.0 | 42 | 20,583 |
| Ohio | 125.0 | 22 | 884,138 |
| Oklahoma | 103.0 | 26 | 241,082 |
| Oregon | 118.0 | 23 | 216,407 |
| Pennsylvania | 135.0 | 20 | 995,500 |
| Rhode Island | 346.0 | 1 | 124,880 |
| South Carolina | 7.0 | 50 | 26,657 |
| South Dakota | 153.0 | 17 | 61,646 |
| Tennessee | 62.0 | 37 | 296,801 |
| Texas | 141.0 | 18 | 1,211,322 |
| Utah | 69.5 | 34 | 52,419 |
| Vermont | 199.0 | 13 | 61,820 |
| Virginia | 30.0 | 48 | 170,248 |
| Washington | 202.5 | 5 | 400,187 |
| West Virginia | 55.0 | 41 | 115,566 |
| Wisconsin | 177.0 | 14 | 555,223 |
| Wyoming | 60.0 | 38 | 24,460 |
| Average/Total | 122.1 | | \$15,720,109 |

(1) Rates effective for years ending June 30, 2009.

(2) For year ending June 30, 2009.

Sources: Orzechowski and Walker and Federation of Tax Administrators.

Exhibit 11
2010 State Cigarette Tax Rates (Cents per Pack)
July 1, 2010



Exhibit 12
Taxed Cigarette Consumption Trends (Millions)

| <u>State</u> | <u>1999 Packs Sold Taxed</u> | <u>2009 Packs Sold Taxed</u> | <u>Percent Change</u> |
|-----------------|----------------------------------|----------------------------------|---------------------------|
| Alabama | 435.1 | 352.3 | -19.0 |
| Alaska | 42.9 | 31.4 | -26.8 |
| Arizona | 281.1 | 185.7 | -33.9 |
| Arkansas | 264.5 | 207.3 | -21.6 |
| California | 1,523.0 | 1,057.1 | -30.6 |
| Colorado | 309.9 | 227.4 | -26.6 |
| Connecticut | 240.0 | 160.7 | -33.0 |
| Delaware | 102.2 | 107.2 | 4.9 |
| Florida | 1,292.7 | 1,293.1 | 0.0 |
| Georgia | 726.6 | 569.2 | -21.7 |
| Hawaii | 38.6 | 52.9 | 37.0 |
| Idaho | 90.9 | 79.8 | -12.2 |
| Illinois | 858.8 | 582.9 | -32.1 |
| Indiana | 781.6 | 503.2 | -35.6 |
| Iowa | 261.6 | 161.7 | -38.2 |
| Kansas | 216.2 | 137.5 | -36.4 |
| Kentucky | 646.2 | 539.6 | -16.5 |
| Louisiana | 439.6 | 364.5 | -17.1 |
| Maine | 106.2 | 68.8 | -35.2 |
| Maryland | 363.5 | 199.7 | -45.1 |
| Massachusetts | 369.4 | 224.7 | -39.2 |
| Michigan | 798.5 | 505.8 | -36.7 |
| Minnesota | 378.3 | 254.3 | -32.8 |
| Mississippi | 283.8 | 263.1 | -7.3 |
| Missouri | 637.5 | 574.9 | -9.8 |
| Montana | 72.6 | 48.1 | -33.7 |
| Nebraska | 143.5 | 106.6 | -25.7 |
| Nevada | 174.2 | 139.2 | -20.1 |
| New Hampshire | 201.4 | 153.4 | -23.8 |
| New Jersey | 511.8 | 282.7 | -44.8 |
| New Mexico | 103.3 | 64.8 | -37.3 |
| New York | 1,140.8 | 482.7 | -57.7 |
| North Carolina | 839.8 | 642.1 | -23.5 |
| North Dakota | 47.9 | 46.8 | -2.3 |
| Ohio | 1,163.8 | 707.3 | -39.2 |
| Oklahoma | 369.7 | 287.6 | -22.2 |
| Oregon | 259.1 | 183.4 | -29.2 |
| Pennsylvania | 1,095.1 | 737.4 | -32.7 |
| Rhode Island | 85.8 | 46.9 | -45.3 |
| South Carolina | 411.2 | 380.8 | -7.4 |
| South Dakota | 61.6 | 40.0 | -35.1 |
| Tennessee | 620.7 | 478.7 | -22.9 |
| Texas | 1,314.7 | 1,029.0 | -21.7 |
| Utah | 90.4 | 75.4 | -16.6 |
| Vermont | 55.4 | 30.4 | -45.1 |
| Virginia | 687.8 | 570.4 | -17.1 |
| Washington | 309.1 | 197.3 | -36.2 |
| West Virginia | 204.1 | 210.1 | 2.9 |
| Wisconsin | 443.4 | 313.7 | -29.3 |
| Wyoming | 50.3 | 40.8 | -18.9 |
| Total | 21,946.2 | 16,000.4 | -27.1 |

Source: Orzechowski and Walker. Figures correspond to years ending June 30.

Exhibit 13
2009 Cigarette Prices and Sales

| State | 2010 State Excise Tax | Weighted Avg. Retail Price⁽¹⁾ | Rank by Price | Per Capita Sales (Packs)⁽²⁾ | Rank by Per Capita Sales |
|---------------------|------------------------------|-------------------------------------------------|----------------------|-----------------------------------------------|---------------------------------|
| Alabama | \$0.43 | \$4.55 | 41 | 75.6 | 13 |
| Alaska | 2.00 | 7.61 | 3 | 45.8 | 37 |
| Arizona | 2.00 | 6.27 | 11 | 28.6 | 48 |
| Arkansas | 1.15 | 5.29 | 26 | 72.6 | 16 |
| California | 0.87 | 5.09 | 30 | 28.8 | 47 |
| Colorado | 0.84 | 5.08 | 31 | 46.0 | 35 |
| Connecticut | 3.00 | 7.47 | 4 | 45.9 | 36 |
| Delaware | 1.60 | 5.35 | 24 | 122.8 | 2 |
| Florida | 1.34 | 5.48 | 20 | 70.6 | 17 |
| Georgia | 0.37 | 4.53 | 43 | 58.8 | 22 |
| Hawaii | 3.00 | 7.45 | 5 | 41.1 | 41 |
| Idaho | 0.57 | 4.56 | 40 | 52.4 | 26 |
| Illinois | 0.98 | 5.63 | 18 | 45.2 | 38 |
| Indiana | 1.00 | 4.81 | 33 | 78.9 | 10 |
| Iowa | 1.36 | 5.33 | 25 | 53.8 | 24 |
| Kansas | 0.79 | 4.75 | 34 | 49.1 | 31 |
| Kentucky | 0.60 | 4.58 | 39 | 126.4 | 1 |
| Louisiana | 0.36 | 4.51 | 46 | 82.6 | 8 |
| Maine | 2.00 | 6.24 | 12 | 52.3 | 27 |
| Maryland | 2.00 | 6.22 | 13 | 35.4 | 42 |
| Massachusetts | 2.51 | 7.26 | 6 | 34.6 | 43 |
| Michigan | 2.00 | 6.14 | 14 | 50.6 | 28 |
| Minnesota | 1.56 | 5.67 | 17 | 48.7 | 33 |
| Mississippi | 0.68 | 4.54 | 42 | 89.5 | 6 |
| Missouri | 0.17 | 4.04 | 49 | 97.2 | 5 |
| Montana | 1.70 | 5.77 | 16 | 49.8 | 29 |
| Nebraska | 0.64 | 4.69 | 35 | 59.8 | 20 |
| Nevada | 0.80 | 4.98 | 32 | 53.5 | 25 |
| New Hampshire | 1.78 | 5.88 | 15 | 116.6 | 3 |
| New Jersey | 2.70 | 7.15 | 7 | 32.6 | 45 |
| New Mexico | 1.66 | 5.10 | 28 | 32.7 | 44 |
| New York | 4.35 | 7.61 | 2 | 24.8 | 50 |
| North Carolina | 0.45 | 4.51 | 47 | 69.6 | 18 |
| North Dakota | 0.44 | 4.19 | 48 | 72.9 | 15 |
| Ohio | 1.25 | 5.37 | 23 | 61.6 | 19 |
| Oklahoma | 1.03 | 5.21 | 27 | 79.0 | 9 |
| Oregon | 1.18 | 5.10 | 29 | 48.4 | 34 |
| Pennsylvania | 1.60 | 5.46 | 21 | 59.2 | 21 |
| Rhode Island | 3.46 | 7.74 | 1 | 44.7 | 39 |
| South Carolina | 0.57 | 3.97 | 50 | 85.0 | 7 |
| South Dakota | 1.53 | 5.44 | 22 | 49.7 | 30 |
| Tennessee | 0.62 | 4.64 | 38 | 77.0 | 11 |
| Texas | 1.41 | 5.53 | 19 | 42.3 | 40 |
| Utah | 1.70 | 4.67 | 37 | 27.6 | 49 |
| Vermont | 2.24 | 6.66 | 9 | 48.9 | 32 |
| Virginia | 0.30 | 4.51 | 45 | 73.4 | 14 |
| Washington | 3.03 | 6.57 | 10 | 30.1 | 46 |
| West Virginia | 0.55 | 4.52 | 44 | 115.8 | 4 |
| Wisconsin | 2.52 | 6.92 | 8 | 55.3 | 23 |
| Wyoming | 0.60 | 4.68 | 36 | 76.7 | 12 |
| U.S. Average | \$1.43 | \$5.32 | | 62.1 | |

(1) As of November 1, 2009, and includes generic brands.

(2) Per capita sales are as of June 30, 2009.

Source: Orzechowski and Walker.

Exhibit 14
Other Tobacco Products Tax Revenue, FY 2009

| State | Net Collections (000's) | Percent of Tobacco Taxes From OTP | Smokeless Tobacco Tax Rate (1) | Smokeless Tobacco Use | |
|-----------------------|----------------------------|-----------------------------------|--------------------------------|-----------------------|--------------------|
| | | | | % of Men Over 18 | % of Women Over 18 |
| Alabama | \$5,304.1 | 3.4 | 1.5 cents/oz. | 7.7 | 0.4 |
| Alaska | 10,151.0 | 13.9 | 75.0 % | 6.9 | 0.3 |
| Arizona | 16,400.9 | 4.2 | 22.3 cents/oz. | 2.4 | 0.1 |
| Arkansas | 28,766.7 | 16.5 | 68.0 % | 9.4 | 1.0 |
| California | 77,760.0 | 7.8 | 41.1 % | 1.1 | 0.0 |
| Colorado | 27,974.3 | 12.8 | 40.0 % | 4.3 | 0.0 |
| Connecticut | 5,375.4 | 1.6 | 20.0 % | 0.9 | 0.0 |
| Delaware | 2,348.6 | 1.8 | 15.0 % | 1.4 | 0.0 |
| Florida | 28,324.4 | 6.5 | 85.0 % | 1.7 | 0.1 |
| Georgia | 27,410.6 | 11.5 | 10.0 % | 3.3 | 0.8 |
| Hawaii | 3,699.9 | 3.4 | 70.0 % | 1.1 | 0.0 |
| Idaho | 7,973.7 | 14.9 | 40.0 % | 5.4 | 0.1 |
| Illinois | 21,399.0 | 3.6 | 18.0 % | 1.9 | 0.1 |
| Indiana | 24,560.6 | 4.7 | 24.0 % | 3.4 | 0.1 |
| Iowa | 22,985.7 | 9.5 | 50.0 % | 6.0 | 0.2 |
| Kansas | 5,663.0 | 5.0 | 10.0 % | 7.0 | 0.1 |
| Kentucky | 11,548.7 | 5.6 | 15.0 % | 7.6 | 0.4 |
| Louisiana | 22,873.5 | 14.9 | 20.0 % | 4.5 | 0.7 |
| Maine | 6,852.2 | 4.7 | 78.0 % | 2.7 | 0.0 |
| Maryland | 10,826.6 | 2.6 | 15.0 % | 1.4 | 0.0 |
| Massachusetts | 16,848.0 | 2.9 | 90.0 % | 0.5 | 0.1 |
| Michigan | 49,987.0 | 4.8 | 32.0 % | 3.2 | 0.0 |
| Minnesota | 42,538.5 | 10.0 | 70.0 % | 4.7 | 0.1 |
| Mississippi | 18,924.2 | 21.8 | 15.0 % | 8.7 | 0.4 |
| Missouri | 13,065.2 | 11.8 | 10.0 % | 5.1 | 0.2 |
| Montana | 10,389.6 | 11.6 | 50.0 % | 8.4 | 0.6 |
| Nebraska | 6,124.0 | 8.2 | 20.0 % | 7.4 | 0.1 |
| Nevada | 9,140.4 | 7.6 | 30.0 % | 2.1 | 0.0 |
| New Hampshire | 2,191.9 | 1.1 | 48.6 % | 1.3 | 0.0 |
| New Jersey | 15,508.0 | 2.1 | 30.0 % | 0.6 | 0.0 |
| New Mexico | 6,971.8 | 10.6 | 25.0 % | 5.1 | 0.2 |
| New York | 52,387.1 | 4.0 | 46.0 % | 1.0 | 0.1 |
| North Carolina | 23,220.5 | 9.6 | 10.0 % | 5.6 | 0.9 |
| North Dakota | 3,389.9 | 14.1 | 16 cents/oz. | 7.8 | 0.3 |
| Ohio | 41,756.1 | 4.5 | 17.0 % | 5.0 | 0.1 |
| Oklahoma | 35,331.8 | 12.8 | 60.0 % | 9.8 | 0.3 |
| Oregon | 32,874.0 | 13.2 | 65.0 % | 5.3 | 0.3 |
| Pennsylvania | NA | NA | NA | 5.2 | 0.0 |
| Rhode Island | 2,748.1 | 2.2 | 40.0 % | 0.6 | 0.0 |
| South Carolina | 5,161.4 | 16.2 | 5.0 % | 4.1 | 0.5 |
| South Dakota | 5,356.6 | 8.0 | 35.0 % | 7.9 | 0.3 |
| Tennessee | 10,163.9 | 3.3 | 6.6 % | 6.5 | 0.4 |
| Texas | 96,385.6 | 7.4 | \$1.10/oz. | 4.5 | 0.1 |
| Utah | 8,067.0 | 13.3 | 35.0 % | 4.5 | 0.1 |
| Vermont | 3,397.4 | 5.2 | 92.0 % | 3.2 | 0.0 |
| Virginia | 16,256.0 | 8.7 | 10.0 % | 4.2 | 0.1 |
| Washington | 30,277.1 | 7.0 | 75.0 % | 5.5 | 0.1 |
| West Virginia | 5,523.5 | 4.7 | 7.0 % | 12.0 | 0.3 |
| Wisconsin | 42,238.3 | 7.1 | 71.0 % | 4.1 | 0.1 |
| Wyoming | 3,179.7 | 11.9 | 20.0 % | 13.8 | 0.8 |
| Total/National | \$977,601.5 | 6.3 | | 4.5 | 0.1 |

(1) When tax rates differ by type, the rate for chewing tobacco is shown. Rates effective January 1, 2010.

Sources: Orzechowski & Walker. Usage rates are from the Centers for Disease Control and Prevention.

Exhibit 15
Percentage of Adults Currently Smoking Cigarettes, 2008

| <u>State</u> | <u>Overall</u> | <u>Rank</u> | <u>Men</u> | <u>Women</u> |
|-------------------------------|----------------|-------------|-------------|--------------|
| Alabama | 22.2 | 10 | 25.2 | 19.4 |
| Alaska | 21.7 | 11 | 23.9 | 19.3 |
| Arizona | 15.9 | 44 | 18.2 | 13.7 |
| Arkansas | 22.4 | 8 | 24.4 | 20.4 |
| California | 14.0 | 49 | 17.8 | 10.3 |
| Colorado | 17.6 | 31 | 19.8 | 15.5 |
| Connecticut | 16.0 | 43 | 17.3 | 14.8 |
| Delaware | 17.8 | 30 | 20.4 | 15.4 |
| Florida | 17.5 | 34 | 18.7 | 16.4 |
| Georgia | 19.5 | 20 | 21.7 | 17.4 |
| Hawaii | 15.4 | 46 | 18.2 | 12.7 |
| Idaho | 16.9 | 37 | 18.4 | 15.4 |
| Illinois | 21.3 | 13 | 25.4 | 17.5 |
| Indiana | 26.1 | 2 | 28.5 | 23.9 |
| Iowa | 18.8 | 23 | 21.0 | 16.7 |
| Kansas | 17.9 | 29 | 19.8 | 16.1 |
| Kentucky | 25.3 | 3 | 26.3 | 24.3 |
| Louisiana | 20.5 | 15 | 23.4 | 17.7 |
| Maine | 18.2 | 27 | 21.6 | 15.0 |
| Maryland | 14.9 | 47 | 16.1 | 13.9 |
| Massachusetts | 16.1 | 42 | 16.9 | 15.4 |
| Michigan | 20.4 | 16 | 22.5 | 18.4 |
| Minnesota | 17.6 | 31 | 19.3 | 15.8 |
| Mississippi | 22.7 | 7 | 25.4 | 20.3 |
| Missouri | 25.0 | 4 | 27.3 | 22.9 |
| Montana | 18.5 | 25 | 18.7 | 18.4 |
| Nebraska | 18.4 | 26 | 20.1 | 16.8 |
| Nevada | 22.3 | 9 | 24.5 | 20.0 |
| New Hampshire | 17.0 | 36 | 18.1 | 16.0 |
| New Jersey | 14.8 | 48 | 17.4 | 12.4 |
| New Mexico | 19.4 | 21 | 22.0 | 16.9 |
| New York | 16.8 | 38 | 17.9 | 15.8 |
| North Carolina | 20.9 | 14 | 23.7 | 18.3 |
| North Dakota | 18.2 | 27 | 20.4 | 15.9 |
| Ohio | 20.2 | 17 | 21.5 | 19.0 |
| Oklahoma | 24.8 | 5 | 26.5 | 23.1 |
| Oregon | 16.3 | 41 | 17.4 | 15.3 |
| Pennsylvania | 21.4 | 12 | 23.4 | 19.6 |
| Rhode Island | 17.4 | 35 | 17.9 | 16.9 |
| South Carolina | 20.1 | 18 | 21.6 | 18.7 |
| South Dakota | 17.6 | 31 | 19.0 | 16.2 |
| Tennessee | 23.2 | 6 | 26.7 | 20.0 |
| Texas | 18.6 | 24 | 22.5 | 14.9 |
| Utah | 9.2 | 50 | 10.6 | 7.9 |
| Vermont | 16.8 | 38 | 18.4 | 15.2 |
| Virginia | 16.5 | 40 | 17.1 | 15.9 |
| Washington | 15.7 | 45 | 17.0 | 14.4 |
| West Virginia | 26.6 | 1 | 26.1 | 27.1 |
| Wisconsin | 19.9 | 19 | 21.7 | 18.2 |
| Wyoming | 19.4 | 21 | 20.0 | 18.9 |
| Median for U.S. States | 18.4 | | 20.4 | 16.7 |

Source: Behavioral Risk Factor Surveillance System reported by Centers for Disease Control.

Exhibit 16
Prevalence of Cigarette Smoking and the Tax Rate on Cigarettes

