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The Effect of the Federal Cigarette Tax Increase on State Revenue

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Today the federal cigarette tax will rise from 39 cents to \$1.01 per pack. The proceeds will help fund expansion of the federal State Children's Health Insurance program. This program provides federal matching funds to states to assist them in providing health insurance to families and children. The SCHIP program is targeted at families with modest incomes above Medicaid eligibility limits.

Of course what the federal government gives with one hand it takes with the other. A \$6.3 billion increase in the federal cigarette excise will reduce the disposable incomes of residents in the states. Table 1 shows that this reduction ranges from \$581 million in California to \$10.8 million in the District of Columbia.

Total	\$ 6,340,750,000
Alabama	\$ 109,978,857
Alaska	\$ 15,600,214
Arizona	\$ 134,852,031
Arkansas	\$ 67,864,689
California	\$ 581,127,778
Colorado	\$ 104,058,146
Connecticut	\$ 58,536,581
Delaware	\$ 17,692,891

Florida	\$ 379,981,723
Georgia	\$ 201,691,767
Hawaii	\$ 21,828,374
Idaho	\$ 30,543,511
Illinois	\$ 279,479,473
Indiana	\$ 163,995,056
Iowa	\$ 62,604,547
Kansas	\$ 53,229,601
Kentucky	\$ 128,026,882
Louisiana	\$ 107,844,936
Maine	\$ 28,467,786
Maryland	\$ 104,345,971
Massachusetts	\$ 116,613,891
Michigan	\$ 231,677,653
Minnesota	\$ 94,399,505
Mississippi	\$ 76,066,634
Missouri	\$ 154,309,350
Montana	\$ 19,280,691
Nebraska	\$ 37,285,410
Nevada	\$ 63,143,599
New Hampshire	\$ 28,470,956
New Jersey	\$ 163,676,384
New Mexico	\$ 42,409,119
New York	\$ 395,510,605
North Carolina	\$ 224,489,092
North Dakota	\$ 13,404,840
Ohio	\$ 281,256,032
Oklahoma	\$ 98,940,497
Oregon	\$ 67,665,226
Pennsylvania	\$ 271,838,059
Rhode Island	\$ 20,142,604
South Carolina	\$ 103,204,568
South Dakota	\$ 16,431,769
Tennessee	\$ 160,546,327
Texas	\$ 501,970,744
Utah	\$ 32,463,700
Vermont	\$ 11,923,948
Virginia	\$ 155,510,031
Washington	\$ 116,875,664
West Virginia	\$ 49,692,858
Wisconsin	\$ 117,357,576
Wyoming	\$ 11,645,403
District of Columbia	\$ 10,796,448

In addition to affecting residents' pocketbooks, a hike in the federal tax would also depress state and local government revenues. To varying degrees state and local governments rely on the sale of cigarettes for three sources of revenue.¹ The first is excise tax revenue, or product-specific taxes levied on cigarettes. Under current law, cigarette excise taxes range from 7 cents per pack in South Carolina to \$2.75 in New York. States also receive revenue from the Master Settlement Agreement (MSA) they signed with the four major tobacco companies in 1998. The amount of money each state receives varies and is a function of the number of packs sold in the state each year. In addition, almost all states levy a general sales tax on cigarettes.

Congressional authorities estimate that the sale of tax-paid cigarettes will drop by about 10 percent—or 1.7 billion packs—in the aftermath of the federal tax hike. Table 2 shows that Tax Foundation analysts estimates that this will reduce state and local revenues by \$2.3 billion in fiscal 2010, the first year the tax is fully in effect. The bulk of these losses will result from \$1.6 billion in lost excise tax revenue. MSA payments are also expected to fall by \$805.8 million. On the positive side of the ledger, because the federal tax will drive up the cost of cigarettes, sales tax receipts are expected to rise by \$105.8 million.

State	Taxed Sales (thousands of packs)	Total Revenue	Excise Revenue	MSA*	Sales Tax Revenue
Total	-1,655,638	-\$ 2,296,311	-\$ 1,596,304	-\$ 805,789	\$ 105,783
Alabama	-39,680	-\$ 30,678	-\$ 19,461	-\$ 13,669	\$ 2,452
Alaska	-2,250	-\$ 7,638	-\$ 6,034	-\$ 1,605	\$ 0
Arizona	-17,266	-\$ 41,710	-\$ 34,531	-\$ 8,530	\$ 1,351
Arkansas	-19,067	-\$ 26,293	-\$ 21,927	-\$ 5,754	\$ 1,387
California	-110,474	-\$ 183,570	-\$ 96,112	-\$ 96,810	\$ 9,353
Colorado	-23,309	-\$ 28,664	-\$ 19,580	-\$ 9,879	\$ 794
Connecticut	-13,400	-\$ 36,808	-\$ 26,799	-\$ 11,186	\$ 1,177
Delaware	-11,362	-\$ 15,531	-\$ 13,066	-\$ 2,465	\$ 0
Florida	-136,680	-\$ 92,651	-\$ 46,334	-\$ 54,787	\$ 8,470
Georgia	-66,117	-\$ 42,400	-\$ 24,463	-\$ 21,634	\$ 3,698
Hawaii	-3,654	-\$ 10,592	-\$ 7,856	-\$ 2,986	\$ 250
Idaho	-9,027	-\$ 7,795	-\$ 5,146	-\$ 3,229	\$ 580
Illinois	-50,890	-\$ 90,731	-\$ 66,547	-\$ 28,636	\$ 4,452
Indiana	-53,342	-\$ 63,425	-\$ 53,075	-\$ 14,611	\$ 4,260
Iowa	-16,366	-\$ 25,700	-\$ 22,258	-\$ 4,661	\$ 1,219
Kansas	-14,538	-\$ 17,102	-\$ 11,485	-\$ 6,501	\$ 884
Kentucky	-61,742	-\$ 45,951	-\$ 37,045	-\$ 12,834	\$ 3,928
Louisiana	-42,665	-\$ 34,184	-\$ 15,360	-\$ 20,564	\$ 1,739
Maine	-5,657	-\$ 14,765	-\$ 11,314	-\$ 3,879	\$ 428
Maryland	-20,713	-\$ 53,885	-\$ 41,427	-\$ 14,058	\$ 1,599
Massachusetts	-17,243	-\$ 62,200	-\$ 43,281	-\$ 20,358	\$ 1,439

Michigan	-43,066	-\$ 107,270	-\$ 86,132	-\$ 24,897	\$ 3,759
Minnesota	-23,072	-\$ 48,813	-\$ 34,447	-\$ 16,336	\$ 1,969
Mississippi	-29,628	-\$ 20,732	-\$ 5,333	-\$ 17,518	\$ 2,118
Missouri	-70,488	-\$ 32,539	-\$ 14,249	-\$ 21,739	\$ 3,449
Montana	-4,315	-\$ 9,991	-\$ 7,336	-\$ 2,655	\$ 0
Nebraska	-12,596	-\$ 13,081	-\$ 8,061	-\$ 5,742	\$ 722
Nevada	-16,912	-\$ 17,526	-\$ 13,529	-\$ 5,212	\$ 1,215
New Hampshire	-13,772	-\$ 22,403	-\$ 18,317	-\$ 4,086	\$ 0
New Jersey	-21,428	-\$ 72,492	-\$ 55,177	-\$ 19,790	\$ 2,475
New Mexico	-7,125	-\$ 11,232	-\$ 6,484	-\$ 5,144	\$ 395
New York	-34,763	-\$ 163,418	-\$ 108,729	-\$ 57,189	\$ 2,500
North Carolina	-80,618	-\$ 43,998	-\$ 28,216	-\$ 19,274	\$ 3,493
North Dakota	-5,490	-\$ 5,922	-\$ 2,416	-\$ 3,780	\$ 273
Ohio	-72,152	-\$ 119,460	-\$ 92,515	-\$ 31,754	\$ 4,808
Oklahoma	-32,865	-\$ 42,076	-\$ 33,851	-\$ 8,225	\$ 0
Oregon	-18,971	-\$ 31,465	-\$ 22,386	-\$ 9,079	\$ 0
Pennsylvania	-75,206	-\$ 140,031	-\$ 101,528	-\$ 43,921	\$ 5,418
Rhode Island	-3,495	-\$ 11,851	-\$ 8,597	-\$ 3,638	\$ 384
South Carolina	-48,964	-\$ 12,660	-\$ 3,428	-\$ 11,944	\$ 2,712
South Dakota	-3,969	-\$ 8,005	-\$ 6,073	-\$ 2,120	\$ 188
Tennessee	-47,788	-\$ 42,706	-\$ 29,631	-\$ 16,561	\$ 3,486
Texas	-97,905	-\$ 182,283	-\$ 138,046	-\$ 51,856	\$ 7,619
Utah	-8,914	-\$ 9,681	-\$ 6,195	-\$ 3,935	\$ 449
Vermont	-2,569	-\$ 7,000	-\$ 5,112	-\$ 2,110	\$ 221
Virginia	-64,835	-\$ 40,369	-\$ 26,837	-\$ 16,812	\$ 3,280
Washington	-16,340	-\$ 43,643	-\$ 33,088	-\$ 12,148	\$ 1,593
West Virginia	-23,637	-\$ 20,478	-\$ 13,000	-\$ 8,898	\$ 1,420
Wisconsin	-33,121	-\$ 70,919	-\$ 58,623	-\$ 14,348	\$ 2,052
Wyoming	-4,654	-\$ 5,541	-\$ 2,792	-\$ 2,942	\$ 193
District of Columbia	-1,539	-\$ 6,450	-\$ 3,077	-\$ 3,503	\$ 131

*Master Settlement Agreement signed in 1998 between the governments of 46 states and the four largest tobacco firms.

Losses are expected to vary widely by state. California, Texas and New York are expected to each lose more than \$150 million in revenue next fiscal year. Meanwhile, losses in Wyoming, North Dakota and the District of Columbia are expected to be less than \$6.5 million.

Notes

1. This list is not exhaustive. A hike in the federal cigarette tax will also reduce state income, property and other tax receipts.

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