



Legislative Fiscal Bureau

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Joint Committee on Finance

Paper #376

Cigarette and Tobacco Products Tax and Refund Increases (General Fund Taxes -- Excise Taxes and Regulation of Tobacco and Alcohol)

Bill Agency

[LFB 2007-09 Budget Summary: Page 191, #1 and Page 489, #3]

CURRENT LAW

The cigarette and tobacco products taxes are excise taxes that are generally imposed on distributors and passed on to the ultimate consumers. Currently, cigarettes are taxed at the rate of \$0.77 per pack. The cigarette tax is paid through the purchase of tax stamps from the Department of Revenue (DOR), generally by a manufacturer or distributor. The tax stamp must be affixed to each pack of cigarettes prior to its first sale in the state. Manufacturers and distributors currently receive a 1.6% discount on cigarette tax stamp purchases as compensation for their administrative costs. Under current law, cigarette tax revenues are estimated at \$304.0 million in 2007-08 and \$305.0 million in 2008-09.

Other tobacco products (referred to as tobacco products) are taxed at the rate of 25% of the manufacturer's list price to distributors. Distributors pay the tobacco products tax through monthly returns filed with DOR. State tax revenues from the excise tax on tobacco products are currently estimated at \$18.4 million in 2007-08 and \$19.3 million in 2008-09. Under current law, all revenues from the excise taxes on cigarettes and tobacco products are deposited to the general fund.

Under current law, for sales of cigarettes that occur on Native American reservations or trust lands, the tribes receive a refund of 100% of the excise tax on cigarettes sold to tribal members and 70% of the tax on sales to non-tribal members. For tobacco products (excluding cigarettes) sold on reservations or trust lands, the tribes receive a refund of 100% of the tax on products sold to tribal members and 50% of the tax on products sold to non-tribal members. The

refunds are paid through a sum sufficient GPR appropriation, which is estimated at \$12.2 million in each year of the 2007-09 biennium under current law.

GOVERNOR

Increase the cigarette tax by \$1.25 per pack (from \$0.77 to \$2.02), and the tobacco products tax from 25% of the manufacturer's established list price to 65.6% of the manufacturer's list price. Provide that the resulting increased tax revenues would be deposited to the segregated health care quality fund, which the bill would create, to be used as a source of funding for medical assistance (MA) and BadgerCare. Specify that the increases would take effect on September 1, 2007, or on the first day of the third month beginning after publication of the budget bill, whichever is later. Estimate SEG revenue from the tax increases as follows: (a) \$257.5 million in 2007-08 and \$249.0 million in 2008-09 from the cigarette tax; and (b) \$18.2 million in 2007-08 and \$21.5 million in 2008-09 from the tobacco products tax. The total amount of SEG revenue under these provisions would be \$275.7 million in 2007-08 and \$270.5 million in 2008-09, for a biennial total of \$546.2 million.

Under current law, on the effective date of any increase in the cigarette tax rates, a one-time "floor" tax is imposed on existing cigarette inventories, which must be paid to DOR by the 15th day after the effective date of a tax increase. The bill would increase the length of time allowed after a tax increase for payment of the inventory floor tax from within 15 days to within 30 days of the effective date of a cigarette tax increase. In addition, the bill would reduce the manufacturers and distributors discount on cigarette tax stamp purchases from 1.6% to 0.7%.

The bill would specify that, from cigarette taxes collected in 2007-08, DOR would be required to deposit no more than \$304.0 million to the general fund and to deposit the remainder to the proposed health care quality fund. In 2008-09 and thereafter, DOR would be required to deposit no more than \$305.0 million to the general fund and to deposit the remainder to the proposed health care quality fund. With respect to tobacco products tax revenues, DOR would be required to deposit no more than \$18.4 million in 2007-08 and no more than \$19.3 million in 2008-09 and thereafter to the general fund and, in each year, to deposit the remainder to the proposed health care quality fund. The specified thresholds represent estimated cigarette and tobacco products taxes under current law.

The bill would also increase the estimate of sum sufficient funding required for cigarette and tobacco products tax refunds to Native American tribes by \$10.3 million in 2007-08 and \$10.2 million in 2008-09 (from base level funding of \$12.2 million in each year). Total funding for such refunds would be \$22.5 million in the first year and \$22.4 million in the second year. The revised funding amounts reflect the administration's estimates of the effects of the proposed increases in cigarette and tobacco products taxes under the bill.

In addition, the bill would provide \$85,700 GPR in 2007-08 and \$70,300 GPR in 2008-09 and 1.0 GPR position annually in the Alcohol and Tobacco Section (ATS) of DOR for an

alcohol and tobacco enforcement agent to assist in enforcing the cigarette and tobacco products taxes.

The provisions pertaining to the health care quality fund are discussed under other papers prepared on this topic.

DISCUSSION POINTS

1. A considerable amount of testimony has been presented to the Joint Committee on Finance on the topic of increasing the state's cigarette and tobacco products excise taxes. Most of the testimony has been in favor of increasing such taxes, particularly the cigarette tax. Some of the reasons cited were to generate funding for a specific purpose, such as to help fund MA benefits, to serve as a means to reduce smoking, particularly among teens and children, and to reduce future health care costs related to tobacco use. However, a number of testimonials were against the proposed tax increases. One reason cited in opposition is that such taxes are regressive, as they take a higher percentage of the income of low income individuals than high income individuals. Another reason mentioned for opposing the proposed tax increases was that such provisions would unfairly target smokers and other tobacco products users. Finally, some testimonials stated that any tax increase is undesirable, including the proposed increases on cigarettes and tobacco products.

2. The most recent increases in the state cigarette tax occurred on September 1, 1995, when the rate was raised from 38¢ to 44¢ per pack; on November 1, 1997, when the rate was raised to 59¢ per pack; and on October 1, 2001, when the rate was raised to its current level of 77¢ per pack.

3. Attachment 1 to this paper identifies the cigarette tax rates in effect in other states and the District of Columbia as of April 24, 2007. Currently, there are 29 states with a higher tax than Wisconsin's. The highest is New Jersey, with a tax of \$2.575 per pack. The state with the lowest cigarette tax rate is South Carolina, at 7¢ per pack. If Wisconsin's cigarette tax rate were increased to \$2.02 per pack, as proposed by the Governor, it would be the fourth highest in the nation.

4. Among the neighboring states, the cigarette tax is currently 98¢ per pack in Illinois, \$1.36 per pack in Iowa, \$2.00 per pack in Michigan, and \$1.493 per pack in Minnesota.

5. As noted, the administration has estimated that the proposed \$1.25 increase in the cigarette tax would result in additional cigarette tax revenues of \$257.5 million in 2007-08 and \$249.0 million in 2008-09, all of which would be deposited to the health care quality fund. The first-year estimate assumes that the proposed increase in the cigarette tax rate would take effect September 1, 2007. The first-year figure also includes estimated floor tax revenues.

6. An additional factor affecting estimated cigarette tax revenues in both years is the likely effect of the proposed increase on consumption of taxed cigarettes. In general, it is assumed that taxed cigarette sales decline following a tax increase. The magnitude of the anticipated decline depends, in part, on the amount of the increase in the tax rate relative to the price of cigarettes and

the availability of alternative sources of cigarettes. An increase in the cigarette tax rate of \$1.25 per pack, which would be a 162% increase in the tax rate, would be significantly larger than any of the previously enacted increases in the state's cigarette tax rate. Only in recent years have any states enacted cigarette tax increases of \$1.00 or more per pack. While the effects of such tax increases on sales of taxable cigarettes have varied, influenced in part by factors unique to each state (such as the specific tax increase, the relative tax rate compared to neighboring states, the proximity of large population centers in the state to neighboring states, and the level of enforcement of cigarette taxes within the state), the decreases in sales of taxable cigarettes generally have been larger than would have previously been expected utilizing assumptions that were typically made for smaller tax increases. Taking into account the experiences of other states with large tax rate increases, the estimates in the bill assume that taxable sales of cigarettes in the state would be reduced by approximately 30% as a result of the proposal. While this result cannot be predicted with certainty, the estimates in the bill and the assumptions on which they are based appear to be reasonable.

7. Under the bill, the 1.6% discount on cigarette tax stamp purchases that manufacturers and distributors currently receive would be reduced to 0.7%. At the current tax rate of 77¢ per pack, the discount is 1.232¢ per pack. If the tax rate were increased to \$2.02 per pack and the discount rate was not reduced, the per pack discount would be 3.232¢ per pack. Under the bill, the per pack discount would be 1.414¢. A higher tax rate would not affect the administrative costs of paying the tax (with the possible exception of the application of the floor tax to existing inventories). Therefore, it appears reasonable to reduce the discount rate, to avoid providing cigarette distributors with a large increase in the per pack discount. A similar reduction in the discount rate was enacted when the cigarette tax was increased from 44¢ per pack to 59¢ per pack on November 1, 1997. At that time, the discount rate was reduced from 2.0% to the current discount of 1.6%.

8. Wisconsin's excise tax on other tobacco products was last increased from 20% of the manufacturer's list price to the current rate of 25% of the manufacturer's list price on October 1, 2001.

9. The proposed increase in the tobacco products tax rate from 25% to 65.6% of the manufacturer's list price would represent a 162% increase, which is consistent with the proposed increase in the cigarette tax rate. Attachment 2 to this paper presents a summary of excise tax rates on tobacco products for those states that impose a tax, including the District of Columbia, as of April 24, 2007. Unlike cigarettes, for which the tax in each state can be expressed on a per pack basis, states use a variety of approaches to taxing other tobacco products. Currently, 34 states (including Wisconsin), impose the tax based on a uniform percentage of a price. While the reference price varies in these states (from retail, to wholesale, to manufacturers list price), each state imposes the tax at a rate that is uniform for all tobacco products taxed in the state. The remaining 16 states that impose a tax on other tobacco products currently impose a tax that differs by product. In some cases the rate is price-based and, in other cases, unit- or weight-based. In some states, the type of tobacco tax imposed varies by product type.

10. As a result of the different methods employed for taxing other tobacco products, state-by-state comparisons are harder to make for tobacco products than they are for cigarettes.

Among Wisconsin's neighboring states, Illinois, Michigan, and Minnesota impose taxes on tobacco products at 18%, 32%, and 70% of the wholesale price in the three states, respectively. Until recently, Iowa imposed a tobacco products tax at the rate of 22% of wholesale, with the exception of little cigars, which were taxed at 1.8¢ per cigar. However, effective March 15, 2007, Iowa's excise taxes on tobacco products are as follows: (a) 6.8¢ per little cigar; (b) \$1.191 per ounce of moist snuff; and (c) 50% of the wholesale price for all other tobacco. (However, for cigars other than little cigars, the Iowa tax is limited to a maximum amount of 22% of the wholesale price plus 50¢ per cigar.)

11. The administration has estimated increased tobacco products tax revenues under the bill as \$18.2 million in 2007-08 and \$21.5 million in 2008-09. The first year estimate assumes that the proposed increase in the tobacco products tax would take effect September 1, 2007. As with the cigarette tax, the proposed increase would represent an increase of 162%, compared to the current tax rate. It is expected that the proposed tax increase would result in a decrease in consumption of tobacco products because of the increased cost of the products to consumers. However, fewer states have experience with modifying tobacco products tax rates at levels comparable to the increase that would be provided under the bill. The estimates under the bill imply a reduction in value of tobacco products of approximately 16%. This assumption and the associated estimated fiscal effects appear to be reasonable.

12. Current law provides 8.0 PR alcohol and tobacco enforcement agent positions in the Alcohol and Tobacco Section of DOR, funded through a liquor tax administrative fee imposed at the rate of 11¢ per gallon of intoxicating liquor. ATS agents provide statewide enforcement of the state alcohol beverage, cigarette, tobacco products, and controlled substance tax laws, and certain gambling laws. ATS agent responsibilities generally include: (a) examination and inspection of licensed premises, including taverns, restaurants, liquor stores, and grocery stores, that hold alcohol beverage and/or cigarette and tobacco licenses or permits, to ensure compliance with state laws and rules; (b) conducting investigations of persons and businesses suspected of committing criminal violations of state alcohol beverage, cigarette, and tobacco products tax laws; (c) providing technical assistance to local government officials, tobacco and alcohol beverage industry employees and representatives, and the public; and (d) maintaining a working connection with local, state, and federal enforcement agencies, and local prosecutor's offices. All agents are registered law enforcement officers, and their position classifications are law enforcement classifications.

13. As noted, the bill would provide \$85,700 GPR in 2007-08 and \$70,300 GPR in 2008-09 and 1.0 position annually for an alcohol and tobacco enforcement agent to help address additional tax avoidance behaviors and associated enforcement challenges that DOR expects would occur as a result of the proposed cigarette and tobacco products tax increases. The additional ATS agent would concentrate on cigarette and tobacco products enforcement, including performance of permit background checks and retail inspection and compliance checks for expected increases of counterfeit cigarette tax stamps and untaxed black market products. In addition, the agent would provide training and education to local law enforcement and DOR field staff regarding illegal traffic in cigarettes and tobacco (including counterfeit stamps, counterfeit products, smuggling, and thefts), and would pursue criminal prosecution through local law enforcement for violations of Wisconsin's cigarette and tobacco products tax laws.

14. According to the Department, other states that have approved large increases in tax rates on cigarettes and tobacco products have typically also increased staff to enhance enforcement. The Committee could delete the additional ATS position and associated funding, however, elimination of the position and funding would make it more difficult for DOR to enforce the tax and to monitor the expected increase in tax avoidance behavior.

15. As set forth in the Constitution of the United States, treaties, statutes, and court decisions, Congress may limit the authority of Indian tribes, but within those limits an Indian tribe is a legitimate governmental entity possessing attributes of sovereignty over its members and territory. State taxation of tribal members on reservations is prohibited where the subject matter is pre-empted by federal law or where the tax would infringe on the right of Indians living on reservations to self-government. Under federal law, states are prohibited from imposing a cigarette tax on sales of cigarettes by Native Americans to Native Americans on reservations. However, a state may assess a cigarette tax on sales that occur on tribal lands to non-Native American purchasers and may require the Native American seller to collect the tax for the state on such sales.

16. Wisconsin statutes direct DOR to refund 70% of cigarette taxes from all sales on reservations or trust lands of an Indian tribe that were designated as such on or before January 1, 1983. The statutes further authorize DOR to enter into agreements with the tribes to provide for the refunding of 100% of cigarette tax collections from sales on reservations to tribal members. The net effect of these provisions is a 70% refund on sales to non-tribal members and a 100% refund on sales to tribal members. A similar process applies for tobacco products, except that the refund rate for sales to non-tribal members is 50%. The refund provisions are intended to encourage Native American retailers to sell only taxed products.

17. The bill would increase the estimate of sum sufficient funding required for cigarette and tobacco products tax refunds to Native American tribes by \$10.3 million in 2007-08 and \$10.2 million in 2008-09, to a total of \$22.5 million in the first year and \$22.4 million in the second year. The higher first-year figure reflects the combined effects of the floor tax on cigarettes and the assumed effective date for the proposed tax rate changes of September 1, 2007. Total estimated tribal refunds under the bill represent 3.8% of estimated state tax revenues from cigarettes and tobacco products in each year, which is consistent with the typical relationship between total cigarette and tobacco products taxes and such refunds in recent years. Any modifications to the proposed increases in cigarette and tobacco products tax under the bill would also require modifications in the estimates of refunds to be paid to the tribes.

18. The following table provides the estimated fiscal effects, compared to current law, of various alternative increases in the cigarette tax. If a tax rate increase other than the proposed increase were selected, the discount on cigarette tax stamp purchases that manufacturers and distributors currently receive could be modified so that the per pack discount would remain the same as under current law. The figures in the table show, for various alternative increases in the rate of the cigarette tax, the associated discount rate to maintain approximately the same per pack discount as is currently provided, and, by fiscal year, estimated tax revenues, tribal refunds, and net effects on the state budget. The figures are based on an effective date of September 1, 2007. For comparison purposes, the \$1.25 increase that would be provided under the bill is shown at the

bottom of the table.

**Estimated Fiscal Effects of Various
Proposed Increases in the Cigarette Tax**

| Proposed Increase | Proposed Tax Rate | Discount Rate | 2007-08 | | | 2008-09 | | |
|----------------------|----------------------|------------------|--------------|-------------|--------------|--------------|-------------|--------------|
| | | | Revenues | Refunds | Net Effect | Revenues | Refunds | Net Effect |
| \$0.25 | \$1.02 | 1.2% | \$85,400,000 | \$2,900,000 | \$82,500,000 | \$90,800,000 | \$3,600,000 | \$87,200,000 |
| 0.50 | 1.27 | 1.0 | 155,200,000 | 5,400,000 | 149,800,000 | 162,800,000 | 6,500,000 | 156,300,000 |
| 0.75 | 1.52 | 0.8 | 204,500,000 | 7,300,000 | 197,200,000 | 210,300,000 | 8,600,000 | 201,700,000 |
| 1.00 | 1.77 | 0.7 | 227,600,000 | 8,400,000 | 219,200,000 | 226,000,000 | 9,400,000 | 216,600,000 |
| 1.25 | 2.02 | 0.7 | 257,500,000 | 10,000,000 | 247,500,000 | 249,000,000 | 9,900,000 | 239,100,000 |

19. The following table provides the estimated fiscal effects, compared to current law, of various alternative increases in the rate of the tobacco products tax. The options provided in the table represent percentage increases in the tobacco products tax rate comparable to the percentage increases provided under the table providing information on various cigarette tax increases. All estimates are based on an effective date of September 1, 2007. For comparison purposes, the proposed tax rate of 65.6%, which would be provided under the bill, is shown at the bottom of the table.

**Estimated Fiscal Effects of Various
Proposed Increases in the Tobacco Products Tax**

| Proposed Tax Rate | 2007-08 | | | 2008-09 | | |
|----------------------|-------------|-----------|-------------|-------------|-----------|-------------|
| | Revenues | Funds | Net Effect | Revenues | Refunds | Net Effect |
| 33.1% | \$4,600,000 | \$100,000 | \$4,500,000 | \$5,800,000 | \$100,000 | \$5,700,000 |
| 41.2 | 9,000,000 | 100,000 | 8,900,000 | 11,300,000 | 200,000 | 11,100,000 |
| 49.3 | 12,600,000 | 200,000 | 12,400,000 | 15,800,000 | 200,000 | 15,600,000 |
| 57.5 | 15,300,000 | 200,000 | 15,100,000 | 19,300,000 | 300,000 | 19,000,000 |
| 65.6 | 18,200,000 | 300,000 | 17,900,000 | 21,500,000 | 300,000 | 21,200,000 |

ALTERNATIVES TO BILL

Separate sets of alternatives are provided in the three following areas: (a) proposed modifications related to the cigarette tax; (b) proposed modifications related to the tobacco products tax; and (c) the proposed authorization and funding for 1.0 GPR alcohol and tobacco enforcement agent position. The proposed uses of any increased cigarette and tobacco products tax revenues are addressed under other papers prepared on this topic. Under the alternatives presented below related to modifications to the tax rates, the revenue impacts are provided but do not indicate fund source, as this would depend on the Committee's decisions related to the use of such revenues. Such alternatives indicate the estimated effects on tribal refunds and the net effects of the alternative tax increases and associated increases in tribal refunds.

Cigarette Tax

1. Approve the Governor's proposed increase in the cigarette tax, the modification in the manufacturers and distributors discount on cigarette tax stamp purchases, and the reestimate of tribal refunds for cigarette taxes.

| <u>Tax Rate</u> | <u>Discount Rate</u> | <u>Change to Bill</u> | | | <u>Change to Base</u> | | |
|-----------------|----------------------|-----------------------|----------------|-------------------|-----------------------|----------------|-------------------|
| | | <u>Revenues</u> | <u>Refunds</u> | <u>Net Effect</u> | <u>Revenues</u> | <u>Refunds</u> | <u>Net Effect</u> |
| \$2.02 | 0.7% | \$0 | \$0 | \$0 | \$506,500,000 | \$19,900,000 | \$486,600,000 |

2. Delete the Governor's provisions and, instead, provide one of the following options.

| <u>Tax Rate</u> | <u>Discount Rate</u> | <u>Change to Bill</u> | | | <u>Change to Base</u> | | |
|-----------------|----------------------|-----------------------|----------------|-------------------|-----------------------|----------------|-------------------|
| | | <u>Revenues</u> | <u>Refunds</u> | <u>Net Effect</u> | <u>Revenues</u> | <u>Refunds</u> | <u>Net Effect</u> |
| \$1.02 | 1.2% | -\$330,300,000 | -\$13,400,000 | -\$316,900,000 | \$176,200,000 | \$6,500,000 | \$169,700,000 |
| 1.27 | 1.0 | -188,500,000 | -8,000,000 | -180,500,000 | 318,000,000 | 11,900,000 | 306,100,000 |
| 1.52 | 0.8 | -91,700,000 | -4,000,000 | -87,700,000 | 414,800,000 | 15,900,000 | 398,900,000 |
| 1.77 | 0.7 | -52,900,000 | -2,100,000 | -50,800,000 | 453,600,000 | 17,800,000 | 435,800,000 |

3. Delete provision.

| <u>Tax Rate</u> | <u>Discount Rate</u> | <u>Change to Bill</u> | | | <u>Change to Base</u> | | |
|-----------------|----------------------|-----------------------|----------------|-------------------|-----------------------|----------------|-------------------|
| | | <u>Revenues</u> | <u>Refunds</u> | <u>Net Effect</u> | <u>Revenues</u> | <u>Refunds</u> | <u>Net Effect</u> |
| \$0.77 | 1.6% | -\$506,500,000 | -\$19,900,000 | -\$486,600,000 | \$0 | \$0 | \$0 |

Tobacco Products Tax

4. Approve the Governor's proposed increase in the tobacco products tax and the reestimate of tribal refunds for tobacco products.

| <u>Tax Rate</u> | <u>Change to Bill</u> | | | <u>Change to Base</u> | | |
|-----------------|-----------------------|----------------|-------------------|-----------------------|----------------|-------------------|
| | <u>Revenues</u> | <u>Refunds</u> | <u>Net Effect</u> | <u>Revenues</u> | <u>Refunds</u> | <u>Net Effect</u> |
| 65.6% | \$0 | \$0 | \$0 | \$39,700,000 | \$600,000 | \$39,100,000 |

5. Delete the Governor's provisions and, instead, provide one of the following options.

| <u>Tax Rate</u> | <u>Change to Bill</u> | | | <u>Change to Base</u> | | |
|-----------------|-----------------------|----------------|-------------------|-----------------------|----------------|-------------------|
| | <u>Revenues</u> | <u>Refunds</u> | <u>Net Effect</u> | <u>Revenues</u> | <u>Refunds</u> | <u>Net Effect</u> |
| 33.1% | -\$29,300,000 | -\$400,000 | -\$28,900,000 | \$10,400,000 | \$200,000 | \$10,200,000 |
| 41.2 | -19,400,000 | -300,000 | -19,100,000 | 20,300,000 | 300,000 | 20,000,000 |
| 49.3 | -11,300,000 | -200,000 | -11,100,000 | 28,400,000 | 400,000 | 28,000,000 |
| 57.5 | -5,100,000 | -100,000 | -5,000,000 | 34,600,000 | 500,000 | 34,100,000 |

6. Delete provision.

| <u>Tax Rate</u> | <u>Change to Bill</u> | | | <u>Change to Base</u> | | |
|-----------------|-----------------------|----------------|-------------------|-----------------------|----------------|-------------------|
| | <u>Revenues</u> | <u>Refunds</u> | <u>Net Effect</u> | <u>Revenues</u> | <u>Refunds</u> | <u>Net Effect</u> |
| 65.6% | -\$39,700,000 | -\$600,000 | -\$39,100,000 | \$0 | \$0 | \$0 |

Alcohol and Tobacco Enforcement Agent

7. Approve the Governor's proposal to provide \$85,700 GPR in 2007-08 and \$70,300 GPR in 2008-09 for 1.0 alcohol and tobacco enforcement agent in DOR.

| ALT 8 | Change to Bill | | Change to Base | |
|--------------|-----------------------|-----------|-----------------------|-----------|
| | Funding | Positions | Funding | Positions |
| GPR | \$0 | 0.00 | \$156,000 | 1.00 |

8. Delete provision.

| ALT 9 | Change to Bill | | Change to Base | |
|--------------|-----------------------|-----------|-----------------------|-----------|
| | Funding | Positions | Funding | Positions |
| GPR | -\$156,000 | - 1.00 | \$0 | 0.00 |

Prepared by: Faith Russell
Attachments

ATTACHMENT 1

Cigarette Tax Rates by State as of April 24, 2007

| <u>State</u> | <u>Tax Per Pack</u> | <u>State</u> | <u>Tax Per Pack</u> |
|------------------------|---------------------|----------------|---------------------|
| New Jersey | \$2.575 | Nevada | \$0.800 |
| Rhode Island | 2.460 | New Hampshire | 0.800 |
| Washington | 2.025 | Kansas | 0.790 |
| Arizona | 2.000 | WISCONSIN | 0.770 |
| Maine | 2.000 | Utah | 0.695 |
| Michigan | 2.000 | Nebraska | 0.640 |
| Alaska ^a | 1.800 | Wyoming | 0.600 |
| Vermont ^b | 1.790 | Arkansas | 0.590 |
| Montana | 1.700 | Idaho | 0.570 |
| Hawaii ^c | 1.600 | Indiana | 0.555 |
| Massachusetts | 1.510 | Delaware | 0.550 |
| Connecticut | 1.510 | West Virginia | 0.550 |
| New York | 1.500 | South Dakota | 0.530 |
| Minnesota ^d | 1.493 | North Dakota | 0.440 |
| Texas | 1.410 | Alabama | 0.425 |
| Iowa | 1.360 | Georgia | 0.370 |
| Pennsylvania | 1.350 | Louisiana | 0.360 |
| Ohio | 1.250 | North Carolina | 0.350 |
| Oregon | 1.180 | Florida | 0.339 |
| Oklahoma | 1.030 | Virginia | 0.300 |
| Maryland | 1.000 | Kentucky | 0.300 |
| District of Columbia | 1.000 | Tennessee | 0.200 |
| Illinois | 0.980 | Mississippi | 0.180 |
| New Mexico | 0.910 | Missouri | 0.170 |
| California | 0.870 | South Carolina | 0.070 |
| Colorado | 0.840 | | |

^aRate increases to 2.00 per pack on July 1, 2007.

^bRate increases to \$1.99 per pack on July 1, 2008.

^cRate increase of \$0.20 will occur each year on September 20, through 2011. Tax rate shown is in effect through September 19, 2007.

^dRate includes \$0.263 per pack sales tax added to the wholesale price of a tax stamp.

Sources: Commerce Clearing House and State Tax Publications.

ATTACHMENT 2

Tobacco Products Tax Rates by State as of April 24, 2007

States That Impose Tax as a Percentage of the Price

| <u>State</u> | <u>Tax</u> | <u>State</u> | <u>Tax</u> |
|----------------------|--------------------------------|----------------|----------------------------------|
| Alaska | 75.0% of wholesale price | Nebraska | 20.0% of manuf. selling price |
| Arkansas | 32.0% of manuf. selling price | Nevada | 30.0% of wholesale price |
| California | 46.76% of wholesale value | New Hampshire | 19.0% of wholesale price |
| Colorado | 40.0% of manuf. list price | New Mexico | 25.0% of wholesale product value |
| Delaware | 15.0% of wholesale price | New York | 37.0% of wholesale price |
| District of Columbia | 12.0% of retail gross receipts | North Carolina | 3.0% of initial wholesale cost |
| Florida | 25.0% of wholesale price | Ohio | 17.0% of wholesale price |
| Hawaii | 40.0% of wholesale price | Oregon | 65.0% of wholesale price |
| Idaho | 40.0% of wholesale price | South Carolina | 5.0% of manuf. price |
| Illinois | 18.0% of wholesale price | South Dakota | 10.0% of wholesale price |
| Indiana | 18.0% of wholesale price | Tennessee | 6.6% of wholesale price |
| Kansas | 10.0% of wholesale price | Utah | 35.0% of manuf. selling price |
| Maryland | 15.0% of wholesale price | Virginia | 10.0% of manuf. selling price |
| Michigan | 32.0% of wholesale price | Washington | 75.0% of taxable sales price |
| Minnesota | 70.0% of wholesale price | West Virginia | 7.0% of wholesale price |
| Mississippi | 15.0% of manuf. list price | WISCONSIN | 25.0% of manuf. selling price |
| Missouri | 10.0% of manuf. Price | Wyoming | 20.0% of wholesale price |

States That Impose Tax That Differs by Product

| <u>State/Product</u> | <u>Range of Tax Rates</u> | <u>State/Product</u> | <u>Range of Tax Rates</u> |
|--------------------------------|---|----------------------|----------------------------|
| Alabama | | Massachusetts | |
| Cigars | \$3.00/1,000 to \$40.50/1,000 | Cigars | 30% of wholesale price |
| Little Cigars | 4¢ per 10 | Loose Tobacco | 30% of wholesale price |
| Smoking Tobacco | Up to 6¢ per ounce | Smokeless Tobacco | 90% of wholesale price |
| Chewing Tobacco | 1.5¢ per ounce | | |
| Snuff | Up to 12¢ per ounce | Montana | |
| | | Moist Snuff | 85¢ per ounce |
| Arizona | | All Other Tobacco | 50% of wholesale price |
| Cigars | 13¢ for 3 to 13¢ each | | |
| Little Cigars | 26.30¢ per 20 | New Jersey | |
| Smoking Tobacco | 13.3¢ per ounce | Moist Snuff | 75¢ per ounce |
| Chewing Tobacco | 13.3¢ per ounce | All Other Tobacco | 30.0% of wholesale price |
| Plug Tobacco | 3.30¢ per ounce | | |
| | | North Dakota | |
| Connecticut | | Cigars | 28% of wholesale price |
| Snuff products | 40¢ per ounce | Pipe Tobacco | 28% of wholesale price |
| All Other Tobacco | 20% of wholesale price | Tobacco Products | 28% of wholesale price |
| | | Snuff | 60¢ per ounce |
| Georgia | | Chewing Tobacco | 16¢ per ounce |
| Cigars | 23% of wholesale price | | |
| Little Cigars | 2.5 mills each | Oklahoma | |
| Loose/Smokeless Tobacco | 10% of wholesale price | Cigars | 12¢ per cigar |
| | | Little Cigars | 3.6¢ per cigar |
| Iowa | | Smoking Tobacco | 80% of factory list price |
| Little Cigars | 6.8¢ per cigar | Chewing Tobacco | 60% of factory list price |
| Snuff | \$1.19/ounce | Smokeless Tobacco | 60% of factory list price |
| All Other Tobacco ^a | 50% of wholesale price | Snuff | 60% of factory list price |
| | | | |
| Kentucky | | Rhode Island | |
| Snuff | 7.5% of wholesale price plus 9.5¢ per unit | Snuff | \$1.00 per ounce |
| All Other Tobacco | 7.5% of wholesale price | All Other Tobacco | 40% of wholesale cost |
| | | | |
| Louisiana | | Texas | |
| Cigars | 8% to 20% of manuf. invoice price | Little Cigars | 1¢ per each 10 cigars |
| Smoking Tobacco | 33% of invoice | Cigars | \$7.50/1,000 to \$15/1,000 |
| Smokeless Tobacco | 20% of invoice price | Smoking Tobacco | 40% of factory list price |
| | | Chewing Tobacco | 40% of factory list price |
| Maine | | Snuff | 40% of factory list price |
| Chewing Tobacco | 78% of wholesale price | | |
| Snuff | 78% of wholesale price | Vermont | |
| Cigars | 20% of wholesale price | Snuff ^b | \$1.49 per ounce |
| Smoking Tobacco | 20% of wholesale price | All Other Tobacco | 41% of wholesale price |

^aFor cigars, the maximum rate is 22% of wholesale price plus 50¢/cigar.

^bEffective July 1, 2008, the tax on snuff increases to \$1.66/ounce.

Sources: Commerce Clearing House and State Tax Publications.