



## Legislative Fiscal Bureau

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Joint Committee on Finance

Paper #332

### Cigarette Tax (General Fund Taxes)

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#### CURRENT LAW

Wisconsin's cigarette tax is an excise tax that is imposed on distributors and passed on to the ultimate consumer. The tax rate is \$0.77 per pack, or 38.5 mills per cigarette. For larger cigarettes (weighing more than three pounds per thousand) the tax rate is 77 mills per cigarette. Cigarette tax revenues were \$291.3 million in 2003-04 and are estimated at \$296.0 million in 2004-05, \$294.4 million in 2005-06, and \$293.6 million in 2006-07.

#### GOVERNOR

No provision.

#### 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 excise tax. Most of the testimony has been in favor of increasing the tax. Some of the reasons cited were to generate funding for a specific purpose, such as to help fund medical assistance (MA) benefits, or to serve as a means to reduce smoking, particularly among teens and children. However, a number of testimonials were against increasing the cigarette tax. Reasons cited in opposition to increasing the cigarette tax included concerns that such an increase would unfairly target smokers and would disproportionately affect poorer citizens of the state.

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. All revenues from this tax are deposited to the general fund.

3. The attachment to this paper identifies the cigarette tax rates in effect in other states as of January 1, 2005. Currently, there are 24 states with a higher tax than Wisconsin. The highest is Rhode Island, with a tax of \$2.46 per pack. The state with the lowest cigarette tax rate is Kentucky at 3¢ per pack.

4. Among the neighboring states, the cigarette tax is currently 98¢ per pack in Illinois, 36¢ per pack in Iowa, \$2.00 per pack in Michigan, and 48¢ per pack in Minnesota.

5. Because the excise tax is a part of the total price paid by consumers for cigarettes at retail, an increase in the excise tax rate would raise additional revenues from the statewide sales tax. In addition, an increase in the state cigarette tax would result in: (a) one-time “floor tax” revenues that would accrue as a result of the application of the additional tax to existing cigarette inventories; (b) decreased demand for cigarettes that would result from the tax increase, as described above; and (c) increased refunds of the cigarette tax to Native American tribes. [Currently, for sales occurring on reservations or trust lands, the tribes receive a refund of 100% of the cigarette tax on cigarettes sold to Native Americans and 70% of the tax on sales made to non-Native Americans.]

#### **ALTERNATIVE CIGARETTE TAX INCREASES**

6. The following table provides the estimated net effect on the general fund of alternative cigarette tax increases. The alternatives are provided in 5¢ increments up to a \$1.00 increase per pack. Generally, tax legislation has a delayed effective date to allow enough time for the Department of Revenue and affected taxpayers to prepare for the change. For purposes of these estimates, it is assumed that the effective date would be September 1, 2005. For each set of estimates, the second year figure is illustrative of the ongoing annualized effect, as the first year figure incorporates the delayed effective date and the effects of one-time floor tax revenues.

7. In addition, as noted above, increases in the cost of cigarettes to consumers generally results in decreased demand for cigarettes. Anticipated reductions in demand have been incorporated into the estimates provided. However, it is possible that large increases in prices would have greater effects on demand than has been assumed to generally be the case with respect to cigarette price changes. In that case, the additional revenue from tax increases at the higher end of the alternatives shown could be less than the estimates below.

8. It should be noted that, disregarding the effect of law changes, growth in cigarette taxes has been fairly flat in recent years, sometimes experiencing negative growth. Cigarette tax revenue cannot be counted on as a revenue source that grows with time.

**Estimated Net Revenue from Various Levels of Cigarette Tax Increase  
(Assuming September 1, 2005, Effective Date)**

<u>Tax Increase</u>	<u>New Tax Rate</u>	<u>2005-06 Net Increase (Millions)</u>	<u>2006-07 Net Increase (Millions)</u>	<u>Biennial Total (Millions)</u>
\$0.05	\$0.82	\$16.3	\$17.1	\$33.4
0.10	0.87	32.4	34.0	66.4
0.15	0.92	48.3	50.6	98.9
0.20	0.97	64.1	67.1	131.2
0.25	1.02	79.6	83.3	162.9
0.30	1.07	95.0	99.3	194.3
0.35	1.12	110.2	115.1	225.3
0.40	1.17	125.2	130.7	255.9
0.45	1.22	140.0	146.0	286.0
0.50	1.27	154.7	161.2	315.9
0.55	1.32	169.1	176.1	345.2
0.60	1.37	183.4	190.8	374.2
0.65	1.42	197.4	205.2	402.6
0.70	1.47	211.3	219.5	430.8
0.75	1.52	225.0	233.5	458.5
0.80	1.57	238.6	247.3	485.9
0.85	1.62	251.9	260.9	512.8
0.90	1.67	265.1	274.3	539.4
0.95	1.72	278.0	287.4	565.4
1.00	1.77	290.8	300.4	591.2

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## ATTACHMENT

### Cigarette Tax Rates by State as of January 1, 2005

<u>State</u>	<u>Tax Rate Per Pack</u>	<u>State</u>	<u>Tax Rate Per Pack</u>
Rhode Island	\$2.460	Utah	\$0.695
New Jersey	2.400	Nebraska	0.640
Michigan	2.000	Wyoming	0.600
Montana	1.700	Arkansas	0.590
Alaska	1.600	Idaho	0.570
Massachusetts	1.510	Indiana	0.555
Connecticut	1.510	Ohio	0.550
New York	1.500	Delaware	0.550
Washington	1.425	West Virginia	0.550
Hawaii	1.400	South Dakota	0.530
Pennsylvania	1.350	New Hampshire	0.520
Vermont	1.190	Minnesota	0.480
Oregon	1.180	North Dakota	0.440
Arizona	1.180	Alabama	0.425
Oklahoma	1.030	Texas	0.410
Maine	1.000	Georgia	0.370
Maryland	1.000	Iowa	0.360
District of Columbia	1.000	Louisiana	0.360
Illinois	0.980	Florida	0.339
New Mexico	0.910	Virginia	0.200
California	0.870	Tennessee	0.200
Colorado	0.840	Mississippi	0.180
Nevada	0.800	Missouri	0.170
Kansas	0.790	South Carolina	0.070
WISCONSIN	0.770	North Carolina	0.050
		Kentucky	0.030