



Legislative Fiscal Bureau

One East Main, Suite 301 • Madison, WI 53703 • (608) 266-3847 • Fax: (608) 267-6873

May 27, 2009

Joint Committee on Finance

Paper #385

Cigarette and Tobacco Product Tax Increases (General Fund Taxes -- Excise Taxes and Regulation of Tobacco)

[LFB 2009-11 Budget Summary: Page 283, #1]

CURRENT LAW

Wisconsin imposes excise taxes on cigarettes and other tobacco products at the following rates:

Cigarettes	\$1.77 per pack.
Moist Snuff	\$1.31 per ounce.
Cigars	50% of the manufacturer's list price, but not more than 50¢ per cigar.
Other Tobacco Products	50% of the manufacturer's list price.

Current law provides for a floor tax on cigarettes whenever the excise tax rate is increased. A floor tax on the inventory of moist snuff was imposed following the imposition of a weight-based tax on moist snuff; however, current law does not provide for any future imposition of a floor tax following January 1, 2008, on inventory of moist snuff.

The cigarette, tobacco products, and moist snuff taxes are excise taxes that are generally imposed on distributors and passed on to the ultimate consumers. Distributors pay the tobacco products tax through monthly returns filed with the Department of Revenue (DOR). The cigarette tax is paid through the purchase of tax stamps from 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 0.7% discount on cigarette tax stamp purchases as compensation for their administrative costs. Under current law, the cigarette tax is estimated to generate revenue of \$534,800,000 in 2009-10 and \$529,500,000 in 2010-11. The tobacco products tax is estimated to generate revenue of \$40,100,000 in 2009-10 and \$40,600,000 in 2010-11. All revenue generated through the cigarette and tobacco products taxes

accrues to the general fund.

For sales of cigarettes that occur on 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. Under current law, Native American refunds are estimated at \$31,000,000 in 2009-10 and \$31,700,000 in 2010-11 [See LFB paper #386].

GOVERNOR

Increase the cigarette and tobacco products taxes to the following rates:

	<u>Current Rate</u>	<u>Proposed Rate</u>
Cigarette Tax	\$1.77 per pack	\$2.52 per pack
Moist Snuff Tax	\$1.31 per ounce	\$1.87 per ounce
Cigar Tax	50% of the manufacturer's list price, but not more than 50¢ per cigar.	71% of the manufacturer's list price, but not more than 71¢ per cigar.
Other Tobacco Products Tax	50% of the manufacturer's list price.	71% of the manufacturer's list price.

In addition, decrease the retailer's discount for taxes paid on cigarette stamps from 0.7% to 0.5%. These provisions would become effective September 1, 2009, or on the first day of the third month beginning after publication of the budget bill, whichever is later.

The bill would also create an inventory tax on moist snuff that would become effective on the date of any increase in the tax rate. This provision would be similar to the current inventory (or "floor") tax on cigarettes. The inventory tax would be calculated by multiplying the difference between the prior tax rate and the new tax rate by the ounces of moist snuff held in inventory for sale or resale on which the moist snuff tax had already been paid. Sellers would be required to file a return and pay the tax due within 30 days of the effective date of the tax increase. Any person who failed to file a moist snuff tax return when due would have to pay a late filing fee of \$10. If any person did not timely pay the inventory tax, that person would be liable for interest at the rate of 1.5% per month or fraction of a month from the date the tax were due until the date when the tax were paid. If any person were to file a false or fraudulent return, that person would also be liable for an amount equal to the amount of tax the person evaded or attempted to evade in addition to the amount of the tax due.

Under the Governor's proposal, assuming an effective date of September 1, 2009, the administration estimates an increase in cigarette tax revenues of \$153,900,000 in 2009-10 and \$156,500,000 in 2010-11. The administration estimates an increase in tobacco products tax

revenue of \$15,200,000 in 2009-10 and \$18,000,000 in 2010-11. To account for the proposed tax increases, the provision would increase the estimate of sum sufficient funding required for cigarette and tobacco products tax refunds by \$10,170,000 in 2009-10 and \$10,300,000 in 2010-11.

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 serve as a means to reduce smoking, particularly among teens and children, to reduce future health care costs related to tobacco use, and to generate funding for specific purposes such as health care. However, a number of testimonials were against the proposed tax increase. Some testimonials stated that any tax increase is undesirable, including the proposed increases on cigarettes and tobacco products. Other testimonies stated that the tax is regressive in nature and unfairly taxes the poor. One testimony argued that the tax would apply to only one legal negative behavior, whereas other legal negative behaviors, such as drinking and overeating, would not be burdened by increased taxes to fund unrelated general purposes.

2. The most recent increases in the state cigarette tax occurred on November 1, 1997, when the rate was raised from 44¢ to 59¢ per pack; on October 1, 2001, when the rate was raised to 77¢ per pack; and on January 1, 2008, when the rate was raised to \$1.77 per pack. The \$1.77 per pack tax rate was included in 2007 Act 20 (the 2007-09 biennial budget act).

3. The most recent increases in the federal cigarette tax occurred on January 1, 2000, when the rate was increased from 24¢ to 34¢ per pack; on January 1, 2002, when the rate was raised to 39¢ per pack; and on April 1, 2009, when the rate was raised to \$1.01 per pack.

4. Since December 31, 2007, the combined fiscal effect of the state and federal taxes on cigarettes increased from \$1.16 per pack to \$2.78, a 140% tax increase over 16 months. Under the Governor's proposal, combined federal and state taxes on cigarettes would increase to \$3.53 per pack, a 204% tax increase over 21 months. Cigarettes and tobacco products are also subject to state and local sales taxes.

5. Among neighboring states, the cigarette tax is currently 98¢ per pack in Illinois, \$1.36 in Iowa, \$2.00 in Michigan, and \$1.504 in Minnesota.

6. As noted, the administration has estimated that the proposed 75¢ increase in the cigarette tax would result in additional cigarette tax revenues of \$153.9 million in 2009-10 and \$156.5 million in 2010-11. The first year estimate assumes that the proposed increase in the cigarette tax rate would take effect September 1, 2009. The first-year estimate also includes estimated floor tax revenues.

7. 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 75¢ per pack, which would be a 42% increase in the tax rate, would be smaller than the most recent increase in the state's cigarette tax rate. Following the most recent \$1.00 tax increase, a 162% increase over the prior cigarette tax rate, taxable sales of cigarettes declined by approximately 17% between 2007 and 2008. Taking into account the experience following the most recent tax rate increase, the estimates in the provision assume that taxable sales of cigarettes in this state would be reduced by approximately 9% as a result of the proposal. While this result cannot be predicted with certainty, the estimates in the provision and the assumptions on which they are based appear to be reasonable.

8. Attachment 1 of this paper identifies the cigarette tax rates in effect in other states and the District of Columbia as of April, 2009. Currently, there are 14 states with a higher tax than Wisconsin's. The highest is Rhode Island, with a tax of \$3.46 per pack. The state with the lowest cigarette tax rate is South Carolina, at 7¢ per pack. The states with the median cigarette tax rate are Delaware and Arkansas, with tax rates of \$1.15 per pack. If Wisconsin's cigarette tax rate were increased to \$2.52 per pack, as proposed by the Governor, it would be the fourth highest in the nation.

9. Under AB 75, the 0.7% discount on cigarette tax stamp purchases that manufacturers and distributors currently receive would be reduced to 0.5%. At the current tax rate of \$1.77 per pack, the discount is equal to 1.239¢ per pack. If the tax rate were increased to \$2.52 per pack and the discount rate were not reduced, the per pack discount would be 1.764¢ per pack. Under the bill, the per pack discount would be 1.260¢ per pack. 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. Similar reductions in the discount rate were enacted the last two times the cigarette tax was increased.

10. Wisconsin's excise tax on other tobacco products was last increased from 25% of the manufacturer's list price to the current rate of 50% of the manufacturer's list price on January 1, 2008. The increase in the tobacco products tax was accompanied by a limit on the maximum tax on cigars of 50¢ per cigar. The increase in the tobacco products tax established a separate tax for moist snuff of \$1.31 per ounce. The separate weight-based tax on moist snuff has accounted for 67% of the revenue generated from the tobacco products tax since the separate tax rate was established. Prior to January 1, 2008, moist snuff was taxed at the general tobacco products tax rate of 25% of the manufacturer's list price.

11. As with cigarettes, the most recent increase in federal tobacco products taxes occurred on April 1, 2009. See Attachment 2 for details on the most recent federal tax increases.

12. The proposed increase in the tobacco products tax rate from 50% to 71% of the manufacturer's list price, increase in the moist snuff tax from \$1.31 to \$1.87 per ounce, and increase in the maximum allowable tax per cigar from 50¢ to 71¢ per cigar would represent a 42% increase across the tobacco products tax rates, which is consistent with the proposed increase in the cigarette

tax rate. Attachment 3 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, 2009. 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, 30 states impose the tax based on a uniform percentage of price. While the reference price varies in those states (from retail, to wholesale, to manufacturer's list price), each of those states impose the tax at a rate that is uniform for all tobacco products taxed in the state. Twenty states impose a tax on other tobacco products that differs by product. Some states impose a price-based tax on tobacco products, whereas other states impose a unit or weight-based tax. In some states, the type of tobacco tax imposed varies by product type.

13. Thirteen states (including Wisconsin) impose a separate weight-based tax on snuff. Of those states, Vermont is the only state to charge a higher tax per ounce. Under the bill, Wisconsin would have the highest weight-based tax on snuff in the nation.

14. 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, respectively. Iowa imposes taxes of 6.8¢ per little cigar, \$1.19 per ounce on snuff, and 50% of the wholesale price on all other tobacco products (with a maximum tax of 50¢ per cigar).

15. A floor tax on moist snuff was imposed following the tax rate increases provided in 2007 Act 20. The Legislature had passed language in the enrolled 2007-09 budget bill specifying that the weight-based tax imposed on moist snuff did not apply to moist snuff that is the inventory of a distributor on January 1, 2008, and for which the tax levied had been paid; however, the Governor vetoed the word "not" from the provision. The partial veto resulted in the imposition of a floor tax on moist snuff (but not other tobacco products) and was administered similarly to the floor tax imposed on cigarettes. While both prior law and Act 20 imposed an inventory tax on cigarettes (in order to adjust the total amount of tax paid on cigarettes in inventory to reflect a change in the tax rate), prior law did not impose a comparable tax with respect to inventories of moist snuff or other tobacco products.

16. The floor tax on moist snuff only applied to product that was in the inventory of a distributor on January 1, 2008. Current law does not impose a floor tax that covers new increases in the excise tax on moist snuff.

17. The Governor's proposal would impose an inventory tax on moist snuff with provisions similar to how the inventory tax applies to any cigarette tax increase. The bill would provide language for the imposition of an inventory tax on future moist snuff tax increases. Provisions for the method of calculating the floor tax, due date for remitting the floor tax, late filing fees, interest rate charged for delinquent returns, and penalties for fraudulent returns, would be similar to those provided for the inventory tax on cigarettes.

18. The Governor's proposal would not impose a floor tax on other tobacco products.

According to DOR, the imposition of a floor tax on price-based tobacco products would be burdensome on both retailers as well as the Department. DOR reports that retailers are generally unaware of the tax paid by distributors for each separate tobacco product, the manufacturer's list price on each item, and which cigars in inventory had paid the fifty cent maximum tax per cigar. These unknowns make calculating a floor tax on inventory of other tobacco products subject to an ad-valorem tax administratively cumbersome. The Department argues that approximately 98% of cigarette and tobacco product floor tax revenue would be collected through the cigarette and moist snuff floor taxes, and that the administrative burden on both retailers and the Department would not justify the potential amount of revenue the Department may collect from extending the floor tax to cover all other tobacco products.

19. The administration has estimated increased tobacco products tax revenues under the bill at \$15.2 million in 2009-10 and \$18.0 million in 2010-11. The first year estimate assumes the proposed increase in the tobacco products tax would take effect September 1, 2009. The first year estimate also includes estimated floor tax revenues of \$400,000. The administration expects that the proposed tax increase would not result in a change to consumption of tobacco products even though the cost of the products to consumers would increase. Prior estimates of increased revenue generated through increases in the tobacco product tax assumed higher prices would reduce consumption; however, DOR argues that the increased cost in the price of cigarettes would result in cigarette smokers switching to other tobacco products, given the relatively high cigarette tax as compared to the tobacco products tax. While this substitution effect may occur, data on tax collections following the most recent increase in the tobacco products tax suggests that taxable sales of tobacco products would decline following another tax increase.

20. The most recent increase in the tobacco products tax rate on January 1, 2008, raised the general tax rate on other tobacco products from 25% of the manufacturer's list price to 50%, established a 50¢ maximum tax per cigar, and converted the tax on moist snuff from 25% of the manufacturer's list price to a weight-based tax of \$1.31 per ounce. Prior to the change in the tobacco products tax rate structure, DOR did not track consumption of moist snuff separate from other tobacco products. The general tax rate on tobacco products increased by 100%; however, the tax on moist snuff increased from 25% of the manufacturer's list price on moist snuff to an average implicit tax rate of approximately 71% of the manufacturer's list price, for an estimated 184% net increase in the tax rate. Since the imposition of the current rate structure on tobacco products, the tax on moist snuff has accounted for approximately 67% of revenue generated through the tobacco products tax. Using these assumptions, the weighted-average tobacco products tax rate on all tobacco products increased by 157% from the prior tax rate. Tobacco products revenue collections in calendar year 2008, less the floor tax collected on moist snuff, totaled \$41.0 million compared to collections of \$17.8 million in 2007 for an increase in revenue of 130% following the increased tax rate. These numbers indicate that taxable consumption fell by approximately 15% to 20% following the 2008 tax increase. Given this experience, the estimated increase in tobacco products tax revenue under the Governor's proposal should be reduced by \$3.7 million in 2009-10 and by \$4.7 million in 2010-11 to \$11.5 million and \$13.3 million, respectively. These estimates assume taxable consumption would decline by approximately 7%.

21. 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.

22. 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.

23. The Governor's budget assumed an increase of \$10,170,000 GPR in fiscal year 2009-10 of cigarette and tobacco tax refunds. The administration's estimated increase for tribal refunds was to account for the Governor's proposed increase in the cigarette and tobacco products taxes, and was based on a 12-month estimate. However, the tax increases would not be implemented for all of fiscal year 2009-10, so the increase to cigarette and tobacco products tax refunds would be for 10 months only. To account for this, funding should be reduced by \$1,670,000 in 2009-10.

24. 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, 2009. For comparison purposes, the \$0.75 increase that would be provided under the bill is shown in the table.

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

Proposed Increase	Proposed Tax Rate	Discount Rate	2009-10 (Millions)			2010-11 (Millions)		
			Revenues	Refunds	Net Effect	Revenues	Refunds	Net Effect
\$0.25	\$2.02	0.62%	\$59.00	\$2.90	\$56.10	\$61.20	\$3.60	\$57.60
0.50	2.27	0.55	110.80	5.80	105.00	113.90	7.10	106.80
0.75	2.52	0.50	153.90	8.30	145.60	156.50	10.10	146.40
1.00	2.77	0.45	186.80	10.80	176.00	186.60	13.00	173.60
1.25	3.02	0.41	208.20	12.70	195.50	203.30	14.80	188.50

25. The following table provides the estimated fiscal effects, compared to current law, of various alternative increases in the rate of the tobacco products tax, rate in the moist snuff tax, and maximum tax per cigar. The options provided in the table represent increases in the tobacco products tax rates 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, 2009. For comparison purposes, the proposed general tax rate of 71%, moist snuff tax of \$1.87, and maximum cigar tax of \$0.71 per cigar which would be provided under the bill, are shown in the table.

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

Proposed Tob. Prod. Tax Rate	Proposed Moist Snuff Tax Rate	Maximum Cigar Tax	2009-10 (Millions)			2010-11 (Millions)		
			Revenues	Refunds	Net Effect	Revenues	Refunds	Net Effect
57%	\$1.49	57¢	\$4.00	\$0.10	\$3.90	\$4.60	\$0.10	\$4.50
64	1.68	64	7.90	0.10	7.80	9.00	0.10	8.90
71	1.87	71	11.50	0.20	11.30	13.30	0.20	13.10
78	2.06	78	15.00	0.20	14.80	17.40	0.20	17.20
85	2.25	85	18.30	0.20	18.10	21.20	0.30	20.90

26. As drafted, the proposed tax increases would take effect on the first day of the third month beginning after publication of the budget bill, or September 1, 2009, whichever is later. The estimates used in the bill are based on an effective date of September 1, 2009, which assumes that the bill will be published in June. In order to assure that the assumed amount of revenue is generated, even if the bill is published in July, the Committee could amend the effective date to be the later of first day of the second month beginning after publication of the budget bill, or September 1, 2009.

ALTERNATIVES

A. Cigarette Tax

1. Approve the Governor's proposed increase in the cigarette tax rate and the modification to the manufacturers and distributors discount on cigarette tax stamp purchases. In addition, re-estimate increased tribal refunds for cigarette taxes by -\$1,670,000 GPR in 2009-10, and specify that these provisions would take effect on the later of the first day of the second month beginning after publication of the budget bill, or September 1, 2009.

ALT A1	Change to Bill
	Funding
GPR	- \$1,670,000

2. Delete the Governor's provision and, instead, provide one of the following options to take effect on the later of the first day of the second month beginning after publication of the budget bill, or September 1, 2009.

Alternative	Rate Increase	Tax Rate	Discount Rate	Change to Bill (Millions)		
				Revenues	Refunds	Net Effect
2a.	\$0.25	\$2.02	0.62%	-\$190.20	-\$13.57	-\$176.63
2b.	0.50	2.27	0.55	-85.70	-7.17	-78.53
2c.	1.00	2.77	0.45	63.00	3.73	59.27
2d.	1.25	3.02	0.41	101.10	7.43	93.67

3. Select another cigarette tax rate.

4. Delete provision.

ALT A4	Change to Bill	
	Revenue	Funding
GPR	- \$310,400,000	- \$20,070,000

B. Tobacco Products Tax

5. Approve the Governor's proposal to increase the tobacco products tax rates and impose a floor tax on moist snuff. In addition, re-estimate the revenue from the tax increase by -\$3,700,000 in 2009-10 and -\$4,700,000 in 2010-11, and specify that these provisions would take effect on the later of the first day of the second month beginning after publication of the budget bill, or September 1, 2009.

ALT B5	Change to Bill
	Revenue
GPR	- \$8,400,000

6. Delete the Governor's proposal and, instead, provide one of the following options to take effect on the later of the first day of the second month beginning after publication of the budget bill, or September 1, 2009.

<u>Alternative</u>	<u>Tob. Prod. Tax Rate</u>	<u>Moist Snuff Tax Rate</u>	<u>Maximum Cigar Tax</u>	<u>Change to Bill (Millions)</u>		
				<u>Revenues</u>	<u>Refunds</u>	<u>Net Effect</u>
6a.	57%	\$1.49	57¢	-\$24.60	-\$0.20	-\$24.40
6b.	64	1.68	64	-16.30	-0.20	-16.10
6c.	78	2.06	78	-0.80	0.00	-0.80
6d.	85	2.25	85	6.30	0.10	6.20

7. Select another tobacco products tax rate, moist snuff tax rate, or maximum tax per cigar.

8. Delete provision.

ALT B8	Change to Bill	
	Revenue	Funding
GPR	-\$33,200,000	-\$400,000

Prepared by: Sean Moran
Attachment

ATTACHMENT 1

Cigarette Tax Rates by State as of April, 2009

State	Tax Per Pack	State	Tax Per Pack
Rhode Island	\$3.460	Delaware	\$1.150
New York	2.750	Oklahoma	1.030
New Jersey	2.575	Indiana	0.995
Massachusetts	2.510	Illinois	0.980
Washington	2.025	New Mexico	0.910
Alaska	2.000	California	0.870
Arizona	2.000	Colorado	0.840
Connecticut	2.000	Nevada	0.800
District of Columbia	2.000	Kansas	0.790
Hawaii ^a	2.000	Utah	0.695
Maine	2.000	Nebraska	0.640
Maryland	2.000	Tennessee	0.620
Michigan	2.000	Kentucky	0.600
Vermont	1.990	Wyoming	0.600
WISCONSIN	1.770	Idaho	0.570
Montana	1.700	West Virginia	0.550
South Dakota	1.530	North Dakota	0.440
Minnesota ^b	1.504	Alabama	0.425
Texas	1.410	Georgia	0.370
Iowa	1.360	Louisiana	0.360
Pennsylvania	1.350	North Carolina	0.350
New Hampshire	1.330	Florida	0.339
Ohio	1.250	Virginia	0.300
Oregon	1.180	Mississippi	0.180
Arkansas	1.150	Missouri	0.170
		South Carolina	0.070

^aRate increase of \$0.20 will occur each year on September 20, through 2011. Tax rate shown is in effect through September 19, 2009.

^bRate includes \$0.274 per pack sales tax added to the wholesale price of a tax stamp.

Sources: Commerce Clearing House, State Tax Publications, and Industry Data.

ATTACHMENT 2

Federal Cigarette and Tobacco Excise Taxes

<u>Taxable Item</u>	<u>Law Effective Through 3/31/2009</u>	<u>Law Effective 4/1/2009</u>
Cigarettes weighing not more than 3 pounds per 1,000 ("Small Cigarettes")	\$19.50 per 1,000 (\$0.39 per pack)	\$50.33 per 1,000 (\$1.01 per pack)
Cigarettes weighing more than 3 pounds per 1,000 ("Large Cigarettes")	\$40.95 per 1,000	\$105.69 per 1,000
Cigars weighing not more than 3 pounds per 1,000 ("Small Cigars")	\$1.828 cents per 1,000	\$50.33 per 1,000
Cigars weighing more than 3 pounds per 1,000 ("Large Cigars")	20.719 % of the manufacturer's or importer's sales price but not more than \$48.75 per 1,000	52.75% of the manufacturer's or importer's sales price but not more than 40.26 cents per cigar
Cigarette Papers	1.22 cents for each 50 papers	3.15 cents for each 50 papers
Cigarette Tubes	2.44 cents for each 50 tubes	6.30 cents for each 50 tubes
Snuff	58.5 cents per pound	\$1.51 per pound
Chewing Tobacco	19.5 cents per pound	50.33 cents per pound
Pipe Tobacco	\$1.0969 per pound	\$2.8311 per pound
Roll-Your-Own Tobacco	\$1.0969 per pound	\$24.78 per pound

ATTACHMENT 3

Tobacco Products Tax Rates by State as of April, 2009

States That Impose Tax as a Percentage of the Price

State	Tax	State	Tax
Alaska	75.0% of wholesale price	Missouri	10.0% of manuf. price
Arkansas	68.0% of manuf. selling price	Nebraska	20.0% of manuf. selling price
California	45.13% of wholesale value	Nevada	30.0% of wholesale price
Colorado	40.0% of manuf. list price	New Hampshire	19.0% of wholesale price
District of Columbia	12.0% of retail gross receipts	New Mexico	25.0% of wholesale product value
Florida	25.0% of wholesale price	North Carolina	10.0% of initial wholesale cost
Hawaii	40.0% of wholesale price	Ohio	17.0% of wholesale price
Idaho	40.0% of wholesale price	Oregon	65.0% of wholesale price
Illinois	18.0% of wholesale price	South Carolina	5.0% of manuf. price
Indiana	24.0% of wholesale price	South Dakota	35.0% of wholesale price
Kansas	10.0% of wholesale price	Tennessee	6.6% of wholesale 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	Wyoming	20.0% of wholesale price

States That Impose Tax That Differs by Product

State/Product	Range of Tax Rates	State/Product	Range of Tax Rates
Alabama		Montana	
Cigars	\$3.00/1,000 to \$40.50/1,000	Moist Snuff	85¢ per ounce
Little Cigars	4¢ per 10	All Other Tobacco	50% of wholesale price
Smoking Tobacco	Up to 6¢ per ounce	New Jersey	
Chewing Tobacco	1.5¢ per ounce	Moist Snuff	75¢ per ounce
Snuff	Up to 12¢ per ounce	All Other Tobacco	30.0% of wholesale price
Arizona		New York	
Cigars	21.8¢ for 3 to 21.8¢ each	Snuff	96¢ per ounce
Little Cigars	44.10¢ per 20	All Other Tobacco	37% of wholesale price
Smoking Tobacco	22.3¢ per ounce	North Dakota	
Chewing Tobacco	22.3¢ per ounce	Cigars	28% of wholesale price
Plug Tobacco	5.50¢ per ounce	Pipe Tobacco	28% of wholesale price
Connecticut		Tobacco Products	28% of wholesale price
Snuff	40¢ per ounce	Snuff	60¢ per ounce
All Other Tobacco	20% of wholesale price	Chewing Tobacco	16¢ per ounce
Delaware		Oklahoma	
Moist Snuff	54¢ per ounce	Cigars	3.6¢ to 12¢ per cigar
All Other Tobacco	15% of wholesale price	Smoking Tobacco	80% of factory list price
Georgia		Chewing Tobacco	60% of factory list price
Cigars	23% of wholesale price	Smokeless Tobacco	60% of factory list price
Little Cigars	2.5 mills each	Snuff	60% of factory list price
Loose/Smokeless Tobacco	10% of wholesale price	Rhode Island	
Iowa		Snuff	\$1.00 per ounce
Little Cigars	6.8¢ per cigar	Little Cigars	17.3¢ per cigar
Snuff	\$1.19 per ounce	All Other Tobacco	80% of wholesale cost
All other Tobacco	50% of wholesale price	Cigars	Up to 50¢ per cigar
Cigars	Up to 50¢ per cigar	Texas	
Kentucky		Little Cigars	1¢ per each 10 cigars
Snuff	19¢ per unit	Cigars	\$7.50/1,000 to \$15/1,000
All Other Tobacco	15% of wholesale price	Smoking Tobacco	40% of factory list price
Louisiana		Chewing Tobacco	40% of factory list price
Cigars	8% to 20% of manuf. invoice price	Snuff	40% of factory list price
Smoking Tobacco	33% of invoice price	Utah	
Smokeless Tobacco	20% of invoice price	Moist Snuff	75¢ per ounce
Maine		All Other Tobacco	35% of manuf. sales price
Chewing Tobacco	78% of wholesale price	Vermont	
Snuff	78% of wholesale price	Snuff	\$1.66 per ounce
Cigars	20% of wholesale price	Little Cigars	99.5 mills per cigar
Smoking Tobacco	20% of wholesale price	Roll-Your-Own Tobacco	\$6.63 per 6 ounces
Massachusetts		All Other Tobacco	41% of wholesale price
Cigars	30% of wholesale price	WISCONSIN	
Little Cigars	100.5 mills per cigar	Moist Snuff	\$1.31 per ounce
Loose Tobacco	30% of wholesale price	All Other Tobacco	50% of manuf. sales price
Smokeless Tobacco	90% of wholesale price	Cigars	Up to 50¢ per cigar

Sources: Commerce Clearing House, State Tax Publications, and Industry Data.