



 THE UNIVERSITY OF IOWA

State Cigarette Taxes: An Issue of Health and Revenue

States rely on cigarette excise taxes both as a source of revenue and as a means to discourage smoking. This report examines state cigarette tax rates, recent tax changes, and the interrelated economic and health impacts of cigarette taxes.

Iowa Compared to Other States

Iowa's cigarette tax of \$0.36 per pack ranks it the 8th lowest nationally and puts it well below the overall state average of \$0.96 per pack. State cigarette tax rates are presented in Table 1.

Table 1: Current State Cigarette Tax Rates*

State	Tax Rate		
Rhode Island	\$2.46	New Hampshire	\$0.80
New Jersey	\$2.40	Kansas	\$0.79
Washington	\$2.03	Wisconsin	\$0.77
Maine	\$2.00	Utah	\$0.70
Michigan	\$2.00	Nebraska	\$0.64
Alaska	\$1.80	Wyoming	\$0.60
Montana	\$1.70	Arkansas	\$0.59
Connecticut	\$1.51	Idaho	\$0.57
Massachusetts	\$1.51	Indiana	\$0.56
New York	\$1.50	Delaware	\$0.55
Texas	\$1.41	West Virginia	\$0.55
Hawaii	\$1.40	South Dakota	\$0.53
Pennsylvania	\$1.35	North Dakota	\$0.44
Ohio	\$1.25	Alabama	\$0.43
Minnesota	\$1.23	Georgia	\$0.37
Vermont	\$1.19	IOWA	\$0.36
Arizona	\$1.18	Louisiana	\$0.36
Oregon	\$1.18	North Carolina	\$0.35
Oklahoma	\$1.03	Florida	\$0.34
Maryland	\$1.00	Kentucky	\$0.30
DC	\$1.00	Virginia	\$0.30
Illinois	\$0.98	Tennessee	\$0.20
New Mexico	\$0.91	Mississippi	\$0.18
California	\$0.87	Missouri	\$0.17
Colorado	\$0.84	South Carolina	\$0.07
Nevada	\$0.80		

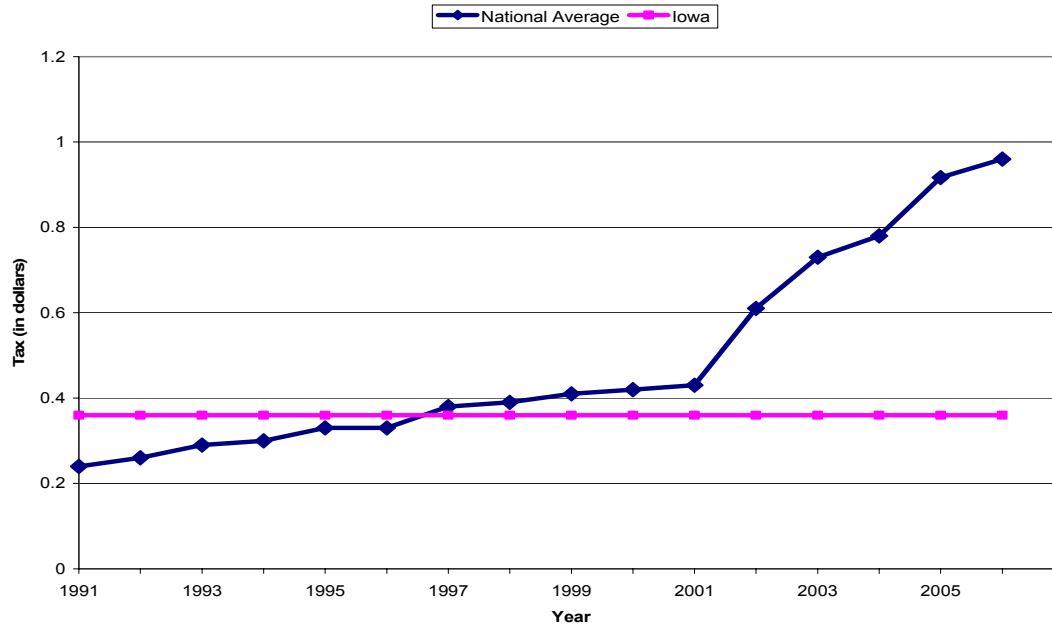
*In addition to a statewide cigarette sales tax, nearly 500 local governments (county or city) nationwide have a local option cigarette sales tax (LOCST). No local government in Iowa currently has a LOCST.

Source: Compiled from data from the Campaign for Tobacco Free Kids

Iowa's cigarette tax has been at \$0.36 since 1991. At that time Iowa was well above the national average of \$0.24 a pack. Since then – and especially since 2001 – the gap between Iowa's tax rate and the national average has grown considerably, as shown in Figure 1.

Figure 1

Cigarette Tax - Iowa vs. Average State Tax (1991-2006)



Source: Compiled from data from the Campaign for Tobacco Free Kids

Impact on Health

Evidence from dozens of studies suggests that raising the overall price of cigarettes by 10% decreases the overall amount of smoking by an average of 2.5 to 5%.¹ Given that Iowa sells 250 million packs of cigarettes a year, a 2.5 to 5% decline in consumption would mean 6.25 to 12.5 million fewer packs sold annually in Iowa.^{2*} Research also shows that young adults are even more sensitive to price increases, decreasing their smoking rates by approximately 7% for a 10% increase in price.³

¹ Chaloupka FJ., et al. "Tax, price and cigarette smoking: evidence from the tobacco documents and implications for tobacco company marketing strategies." *Tobacco Control*. 11, Suppl. 1 (2002): 162-172. Accessed at http://tc.bmjournals.com/cgi/content/full/11/suppl_1/i62

² Lindblom, Eric. "State Cigarette Prices, Taxes, and Costs Per Pack." *Campaign for Tobacco Free Kids*. 1 Sept. 2006. Accessed at <http://tobaccofreekids.org/research/factsheets/pdf/0207.pdf>

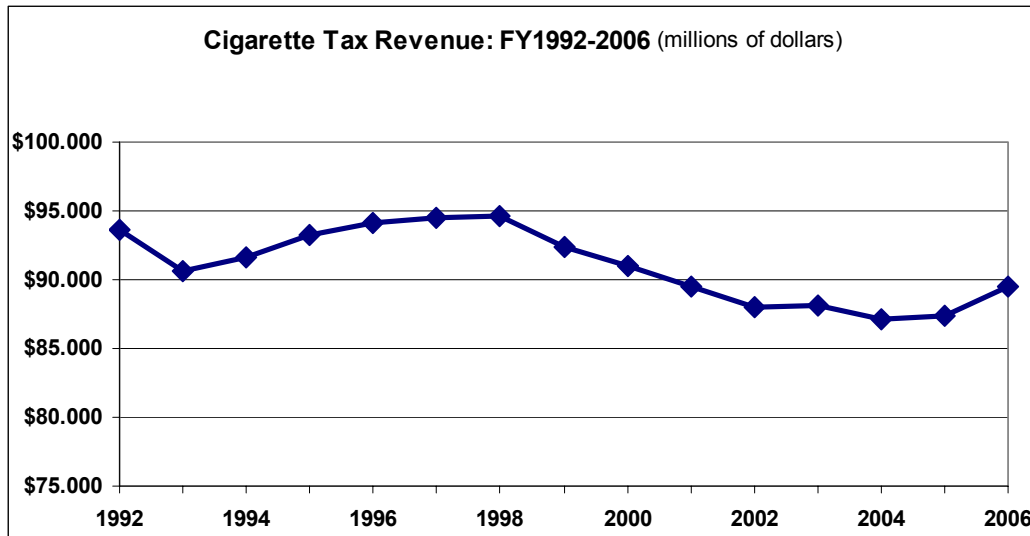
* Given that the average price per pack of cigarettes in Iowa is currently \$3.66, the overall price per pack would need to increase \$.36, or 10% from the current average price, to achieve this 2.5-5% decrease in consumption.

³ Levy, David T., Frank Chaloupka, and Joseph Gitchell. "The Effects of Tobacco Control Policies on Smoking Rates: A Tobacco Control Scorecard." *Journal of Public Health Management Practice*. 10.4 (Jul-Aug 2004): 338 (16). Accessed at http://www.tobaccofreeair.org/METC_SmokeFreeAirMaterials/SelectReferences/Smoking_Cessation/Levy%20JPHMP%202004.pdf.

Impact on Revenue

Iowa's cigarette tax revenue currently goes into the state's general fund. The state's revenue from the cigarette tax is plotted over time in Figure.⁴

Figure 2



Source: Compiled from data from the Iowa Department of Revenue

A comprehensive national study of state cigarette tax increases shows that although cigarette sales drop when taxes are raised, the amount of revenue increases.⁵ More specifically, sales increase just before a tax increase, sharply decrease right after, and gradually return to a level lower than before the tax increase. Every state that has increased its cigarette tax by at least \$0.10 has increased revenue. In the long run, however, if Americans continue to smoke less as national trends have indicated in recent years, state cigarette tax revenue will slowly decrease.⁶

Other Considerations

Cigarette taxes also involve an economic fairness issue. A cigarette tax, by nature, is regressive: it takes a larger proportion of the income of low-income smokers than those with higher incomes. This is of particular concern because cigarette smoking is more common among adults below the poverty level (29.1 %) than among those at or above the poverty level (20.6 %).⁷ At

⁴ *Figure 2 begins in 1992 because this was the first fiscal year under the current \$.36 tax rate.

⁵ Farrelly, Matthew C, Christian T. Nimsch, and Joshua James. "State Cigarette Excise Taxes: Implications for Revenue and Tax Evasion." RTI International. (2003). Accessed at http://www.rti.org/pubs/8742_Excise_Taxes_FR_5-03.pdf#search=%22tobacco%20tax%20affect%20on%20revenue%22

⁶ Lav, Iris J. "Cigarette Tax Increases: Cautions and Considerations." Center on Budget and Policy Priorities. (2002) Accessed at <http://www.cbpp.org/7-3-02sfp.pdf#search=%22tobacco%20tax%20affect%20on%20revenue%22>

⁷ United States. Center for Disease and Control. "Cigarette smoking among adults – United States, 2004." *Morbidity and Mortality Weekly Report*. 54(44): (2005): 1121-1124. Accessed at <http://www.cdc.gov/mmwr/PDF/wk/mm5444.pdf>

the same time, low-income populations are the most sensitive to price increases and are more likely to quit smoking when the cigarette tax is raised.⁸

Another issue associated with increasing the state cigarette tax is cross border purchasing. Iowa currently has the second lowest cigarette sales tax among its border states: Missouri (\$0.17), South Dakota (\$0.53), Nebraska (\$0.64), Wisconsin (\$0.77), Illinois (\$0.98), and Minnesota (\$1.23). Additionally, more than 120 local governments in Missouri have local cigarette taxes, raising the total tax in many parts of Missouri above the state's tax of \$0.17.

There is evidence that some individuals will seek out lower-taxed cigarettes in neighboring states after an increase in their own state. However, evidence also suggests that this practice has a negligible effect on total revenue.⁹

This report was prepared in October, 2006 by the Iowa Civic Analysis Network (I-CAN), a non-partisan public policy undergraduate research group at the University of Iowa. For additional research on this or other issues, please visit our website at <http://www.uiowa.edu/~ican> or contact us at studorg-i-can@uiowa.edu.

⁸ Lav, Iris J. "Cigarette Tax Increases: Cautions and Considerations." *Center on Budget and Policy Priorities*. (2002) Accessed at <http://www.cbpp.org/7-3-02sfp.pdf#search=%22tobacco%20tax%20affect%20on%20revenue%22>

⁹ Farrelly, Matthew C, Christian T. Nimsch, and Joshua James. "State Cigarette Excise Taxes: Implications for Revenue and Tax Evasion." *RTI International*. (2003). Accessed at http://www.rti.org/pubs/8742_Excise_Taxes_FR_5-03.pdf#search=%22tobacco%20tax%20affect%20on%20revenue%22