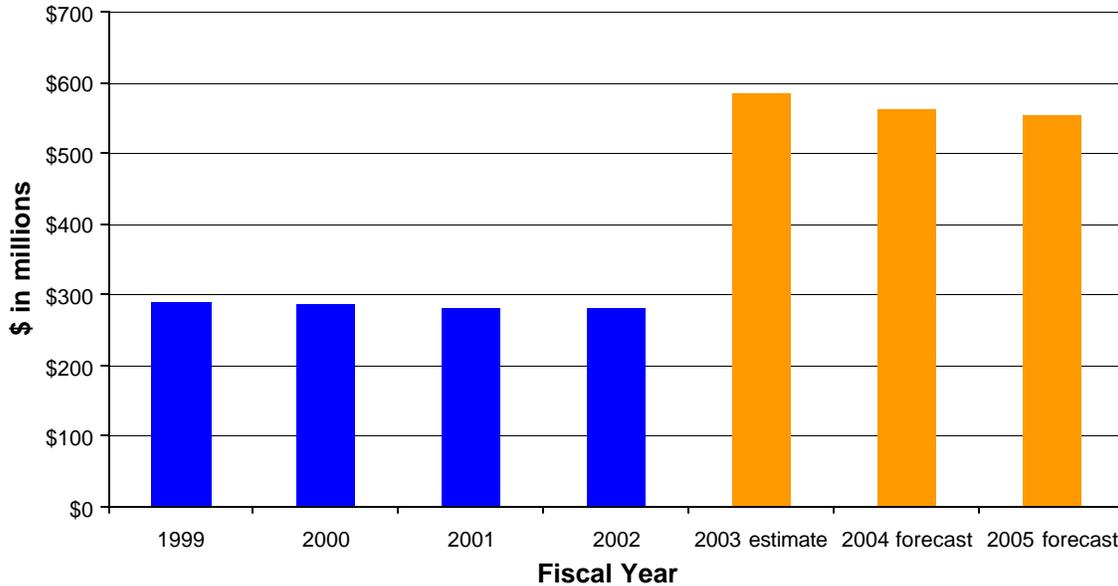


## Cigarette and Tobacco Products Tax

**GRF Revenues from Cigarette and Tobacco Products Tax**  
(in millions)



	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005
	Actual	Actual	Actual	Actual	Estimate	Forecast	Forecast
Cigarette	\$290.6	\$287.7	\$282.5	\$281.3	\$585.0	\$563.0	\$555.0
growth	-2.0%	-1.0%	-1.8%	-0.4%	108.0%	-3.8%	-1.4%

The cigarette and other tobacco products tax is levied on cigarettes, cigars, chewing tobacco, snuff, smoking tobacco, and other tobacco products. Cigarettes are taxed at a rate of 55 cents per package of 20 cigarettes. Other tobacco products are taxed at 17% of their wholesale price.

Revenue collected from the tax is deposited into the General Revenue Fund. Prior to FY 2003, cigarette and other tobacco tax receipts declined as tobacco consumers quit or looked for sources of non-taxed cigarettes. Revenues from taxed cigarettes were generally 91% to 93% of the cigarette and other tobacco products tax take. Other tobacco products provided between 7% and 9% of the tax receipts. Trends for the two tax bases are not always similar. In the last three years prior to FY 2001, cigarette tax receipts declined slowly each year while tax revenues from other tobacco products increased.<sup>4</sup> However, in

<sup>4</sup> A plausible explanation is that huge cigarette price increases led some smokers to favor the consumption of other tobacco products instead of purchasing cigarettes. Cigarette prices grew 9.8%, 30.9%, 11.2%, and 7.8% in 1998, 1999, 2000, and 2001, respectively. Other tobacco products prices grew 3.4%, 7.6%, 7.1% and 3.4% during the same years. More recently, some smokers may have switched

FY 2001, growth in cigarette tax receipts was flat, while other tobacco products tax receipts plunged by about 24%. In FY 2002, receipts from both tax sources declined slightly. For FY 2003, Am. Sub. S.B 261 increased cigarette taxes from 24 cents per pack to 55 cents per pack of 20 cigarettes and left unchanged the tax rate on other tobacco products. Due to the tax increase on cigarettes, the tax base of other tobacco products will become a much smaller share of the cigarette and other tobacco products tax.

The forecast for the cigarette and tobacco products tax is primarily based on trends in consumption of both cigarettes and other tobacco products. S.B. 261 increased cigarette prices by an amount at least equal to the increase in tax. This price increase will gradually decrease monthly consumption of taxed cigarettes by at least 6.0% by the end of FY 2003.<sup>5</sup> FY 2003 revenues include one-time revenue of about \$13.2 million from the “floor” tax, a tax on cigarette inventories that paid tax at the old rate but were not yet sold. It is expected that smokers will continue to make further adjustments to their consumption of taxed cigarettes during FY 2004. Some consumers will switch to other tobacco products whose tax rate was left unchanged by S.B. 261. This will increase tax revenues from this source of the tax base. The long-term annual decline in cigarette consumption, which has been about 1.5%, is expected to continue. Additional factors, such as increases in cigarette prices and increases in the share of non-taxed cigarettes (smuggling and Internet purchases), may create an even steeper decline in consumption of taxed cigarettes in future years.

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back to more affordable “generic cigarettes” which cost less than name brand cigarettes, looked for cheaper cigarettes in neighboring states, and purchased through mail-order catalog or Internet sites at lower cost.

<sup>5</sup> The average weighted price includes both generic and premium cigarettes. The price elasticity of demand for cigarettes is assumed to be at -0.6, i.e. a 10% price increase results in a 6% decrease in consumption. Accepted ranges of price elasticity of demand for cigarettes are between -0.4 and -0.6.