

*File - Excise Taxes*

THE TAX BURDEN  
ON TOBACCO

*Historical Compilation*  
1995

52262 7689

### Tax Year Highlights

#### Federal

- For Fiscal Year 1995, the federal excise on cigarettes, raised on January 1, 1993 from 20¢ to 24¢ per pack of 20 cigarettes, grossed a total tax revenue of \$5,716,764,000.

#### State

- During the year ending June 30, 1995, state excises on cigarettes ranged from a low of 2.5¢ in Virginia to a high of 75¢ in Michigan, giving a weighted average cigarette tax imposed by the states of 31.5¢ per package in addition to the 24¢ federal excise.
- For FY 1995, these taxes yielded the states \$7,212,088,000 in gross cigarette excise taxes.
- During the same period there were 23,241,200,000 state tax-paid packs sold.
- The U.S. per capita consumption of cigarettes, based on federal tax-paid removals, was 91.5 packs for the fiscal year ending September 30, 1995.
- The retail price of a package of 20 cigarettes (full-priced brands) as of November 1, 1995, including federal and state excise taxes, ranged from a low of \$1.51 in Kentucky to a high of \$2.60 in Washington.
- The average retail price of a package of 20 cigarettes (full-priced brands) as of November 1, 1995, was \$1.91, including federal, state and municipal excise taxes.
- The average retail price of a package of 20 cigarettes, including generic brands, as of November 1, 1995, was \$1.80, including federal, state and municipal excise taxes.
- Federal and state excise taxes accounted, on the average, for 32 percent of the retail price of cigarettes.

#### Municipal

- In eight states, municipal taxes were added to the federal and state taxes during fiscal year ending June 30, 1995.
- The municipal cigarette taxes in these states ranged from 1¢ to 30¢ a pack.
- In all, 451 cities, towns and counties imposed local cigarette taxes, which grossed \$184 million in the year ending June 30, 1995.

#### Total

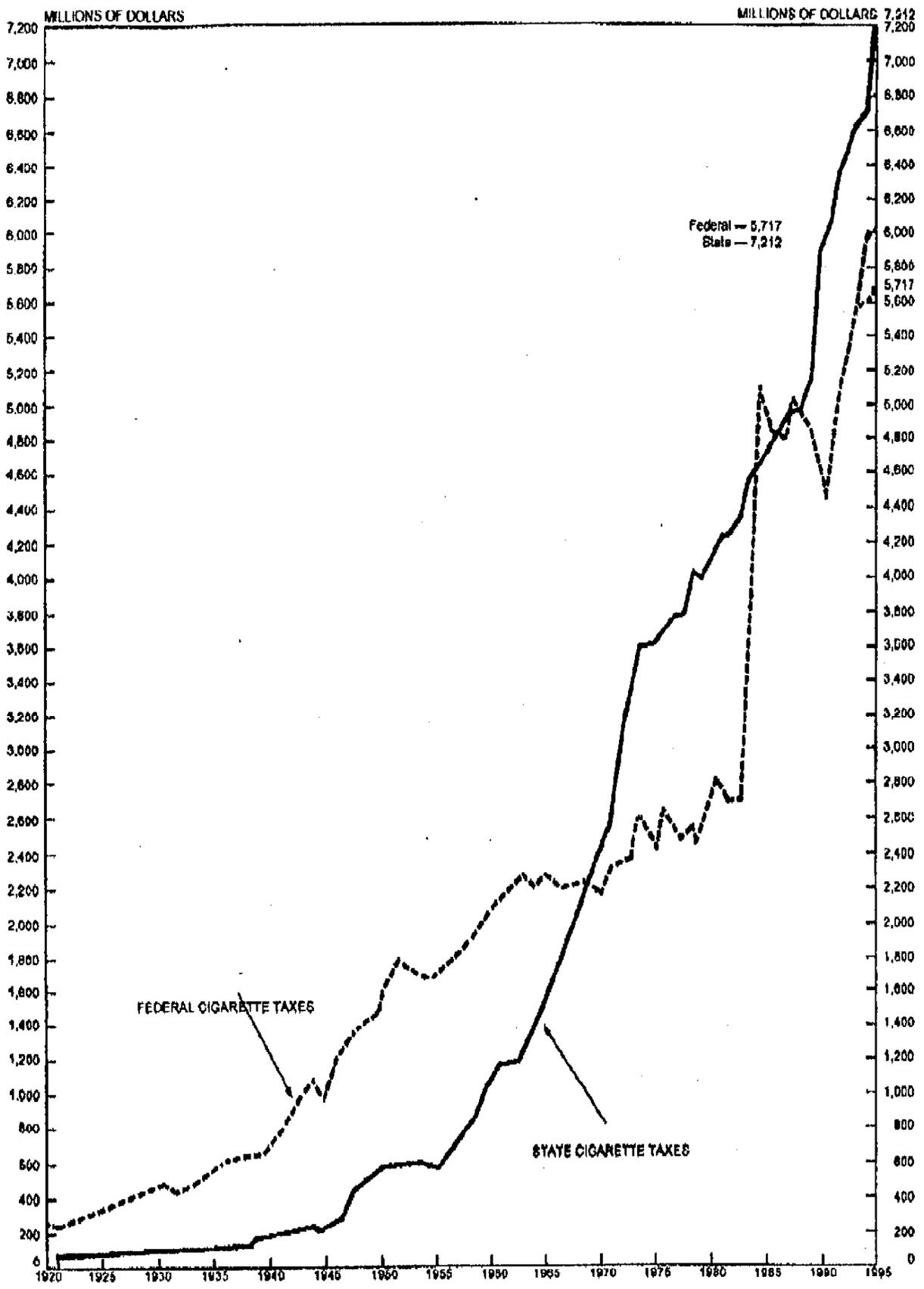
- Federal, state and municipal excise taxes on cigarettes for the fiscal year ending June 30, 1995, amounted to \$13,110,076,000—over \$13 billion, or \$51 per man, woman and child.

**Table 17**  
**History of Federal Tax Rates on Cigarettes: 1864-1995**

Effective date	Rate per pack of 20 cigarettes	Explanation of legal provisions for years in which differential rates were applicable	Number of months in effect
June 30, 1864	0.8¢	Valued at not over \$6 per 100 packs of 25 each .....	9
	2.4	Valued at over \$6 per 100 packs of 25 each.....	9
April 1, 1865	2.4	Valued at over \$5 per 100 packs of 25 each .....	16
	4.0	Valued at over \$5 per 100 packs of 25 each.....	10
Aug. 1, 1868	4.0	Valued at not over \$8 per 1,000.....	7
	8.0	Valued at over \$8 and not over \$12 per 1,000.....	7
	8.0 + 20%	Valued at over \$12 per 1,000 of value .....	7
Mar. 2, 1867	10.0	No differential rates .....	17
July 20, 1868	3.0	No differential rates .....	79
Mar. 3, 1875	3.5	No differential rates .....	98
Mar. 3, 1883	1.0	No differential rates .....	171
Aug. 15, 1897	2.0	No differential rates .....	10
June 14, 1898	3.0	No differential rates .....	49
July 1, 1901	1.08	Valued at not over \$2 per 1,000.....	96
	2.16	Valued at more than \$2 per 1,000.....	98
July 1, 1910	2.5	No differential rates .....	87
Oct. 4, 1917	4.1	No differential rates .....	17
Feb. 25, 1919	6.0	No differential rates .....	256
July 1, 1940	6.6	No differential rates .....	28
Nov. 1, 1942	7.0	No differential rates .....	108
Nov. 1, 1951	8.0	No differential rates .....	374
Jan. 1, 1983	16.0	No differential rates .....	98
Jan. 1, 1981	20.0	No differential rates .....	24
Jan. 1, 1993	24.0	No differential rates .....	current

Note: This table deals with taxes on small cigarettes only. Large cigarettes have historically represented a negligible part of total production. In order to effect comparability of the different basic laws, we have converted the legal rates into a rate based upon a standard package of 20 cigarettes.

### Mounting Burden of Federal and State Cigarette Taxes 1920-1995



**Table 1**  
**Federal, State, and Local Tobacco Taxes**  
**Selected Periods Since 1863**  
(In thousands of dollars)

	<u>Year Ending June 30, 1995</u>	<u>Year Ending June 30, 1994</u>	<u>Percentage change 1994-1995</u>	<u>1863 through 1995</u>
<b>Federal excises:</b>				
Cigarettes	\$ 5,718,764 †	\$ 5,599,534	+ 2.1%	\$ 142,217,764
Other tobacco products	118,889 †	114,276	+ 2.1%	7,985,710
Total	5,833,433	5,713,810	+ 2.1%	150,183,474
% from cigarettes	98.0	98.0		94.7
<b>State excises:*</b>				
Cigarettes	7,212,088	6,658,929	+ 8.3%	135,720,694
Other tobacco products	304,368	263,685	+ 15.4%	2,802,220
Total	7,518,454	6,922,614	+ 8.6%	138,523,004
% from cigarettes	96.0	96.2		98.0
<b>Local excises:**</b>				
Cigarettes	181,224	184,322	- 1.7%	4,836,176
Other tobacco products	466	481	- 3.3%	18,656
Total	181,689	184,803	- 1.7%	4,856,281
% from cigarettes	99.7	99.7		99.6
<b>Aggregate:</b>				
Cigarettes	13,110,076	12,442,786	+ 5.4%	288,892,661
Other tobacco products	421,600	376,442	+ 11.4%	10,784,696
Total	13,531,676	12,821,227	+ 5.5%	299,677,457
% from cigarettes	98.9	97.0		96.4

\* The first state cigarette tax was imposed in 1921.

\*\* The first municipal cigarette tax was imposed in 1927.

† BATF Preliminary.

### THE CASE AGAINST UNFAIR TOBACCO EXCISE TAXES

The Administration and some Members of Congress propose drastic increases in tobacco excise taxes to fund reform of the U.S. health care system and to fund a range of other programs. A solution to the nation's fiscal problems must be constructed on the basis of equity: All members of society should pay their fair share.

Raising tobacco excise taxes to help pay for health care reform would further burden low- and middle-income families already paying more than their fair share of taxes. Raising tobacco excise taxes is unfair and unwise fiscal policy.

- **Should low-income Americans carry the burden of financing health care?** Consumer excise taxes are regressive, hitting hardest those people who are least able to pay -- low- and middle-income families. According to a March 1993 Peat Marwick study, 54 percent of American families earn less than \$30,000 per year. These families account for only 19 percent of family income -- but they pay a staggering 54 percent of all tobacco excise taxes.

A 1987 Congressional Budget Office (CBO) study states that excise taxes are among the most regressive of all taxes, and calls tobacco taxes the "most regressive of all." The CBO's study indicated that tobacco taxes, as a percentage of income, were 15 times greater for low-income persons compared with wealthy individuals.

- **Should rural Americans pay more for health care?** Rural Americans pay a significantly higher percentage of their income in consumer excise taxes than do residents in urban areas. Specifically, rural Americans shoulder a 44 percent higher tax burden in tobacco excises alone. (Ekelund and Long, Excise Taxes and the Rural Taxpayer: Losing Ground in the '80s and '90s?, commissioned by the American Agriculture Movement, March 1993.)
- **Should minority groups pay more than their fair share?** Consumer excise taxes also hurt Blacks, Hispanics and other minorities as these groups have higher levels of poverty and unemployment, and thus are more vulnerable to regressive taxes.
- **It is unfair to ask one group of taxpayers -- smokers -- to shoulder the burden of health care reform.** In a fair and progressive system, the tax burden should be borne by all, not just one group of taxpayers.

### WHO PAYS CONSUMER EXCISE TAXES?

- People -- not corporations -- pay consumer excise taxes.
- Anyone who buys gasoline, alcohol or tobacco products pays a consumer excise tax.
- A 1987 Congressional Budget Office study states that excise taxes are among the most regressive of all taxes, and calls tobacco taxes the "most regressive of all."
- Excise taxes are not levied based on one's ability to pay. Thus, they adversely impact poor and middle-income individuals as well as the elderly.
- Consumer excise taxes particularly hurt Blacks, Hispanics and other minorities as these groups have higher levels of poverty and unemployment, and thus are more vulnerable to regressive taxes.
- Rural Americans pay a significantly higher percentage of their income in consumer excise taxes than do residents in urban areas. Specifically, rural Americans shoulder a 44 percent higher tax burden in tobacco excises alone. (Ekelund and Long, Excise Taxes and the Rural Taxpayer: Losing Ground in the '80s and '90s?, commissioned by the American Agriculture Movement, March 1993.)
- Working women also bear a greater tax burden than others. With the rise in women joining the workforce, and rising number of families headed by women, increasing numbers of women pay more than their fair share of taxes. (Lyons and Colvin, Women and Children First: An Analysis of Trends in Federal Tax Policy, prepared for the Coalition of Labor Union Women, May 1990.)

**EARMARKING CONSUMER EXCISE TAXES:  
UN SOUND, UNWISE AND UNFAIR TAX POLICY**

Americans accept that as wage-earners, property owners or consumers, a portion of what we earn, own or buy will go into the government's till. While individuals seem eager to pay their fair share for the sake of future generations, we expect these taxes to be fair -- and not single out certain Americans to contribute more than their portion. We also expect our taxes to be put to the best possible uses.

In some cases, government targets the people who buy specific products for taxation and "earmarks" the revenues to pay for programs and services that benefit the general public. Although many types of taxes have been earmarked for public projects, cigarettes continue to be frequent targets. Advocates of increasing tobacco taxes want to make smokers society's debt-payers, continually paying the bill for programs and services that benefit smokers and nonsmokers alike. Earmarking consumer excise taxes is unsound, unwise and unfair tax policy for several reasons.

- Earmarking means a less competitive and more inflexible budgeting procedure. Under general funding, most interest groups have to compete against each other for a piece of the budget "pie." Earmarking, by contrast, shields favored, special interests from competition from groups who must vie for general fund revenues. It also ties lawmakers' hands by removing a source of revenue that could potentially be used for general funding purposes, rendering the revenue base inflexible.
- Earmarking often violates accepted principles of taxation. Two widely accepted principles of taxation are the ability to pay and the "benefit principles" of taxation. Increasing the federal tobacco excise tax to pay for the national debt or to finance health care reform fails both tests. The cigarette excise tax is extremely regressive, taking a much higher percentage of income from low- and middle-income families than from the wealthy.
- Excise taxes are an unreliable source of earmarked funds. Hitching a federal cigarette excise tax increase to health care reform is funding a program with a voracious appetite with a sinking revenue base. If cigarette sales continue to slip with the passage of time, financing the ever expanding health care system would present serious funding problems. Logic and fiscal prudence dictate that funding come from a more reliable tax base.
- It is unfair to ask one group of taxpayers -- smokers -- to shoulder the burden of health care reform. In a progressive system, the tax burden should be borne by all, not just one group of taxpayers.

**THE IMPACT ON THE CONSUMER PRICE INDEX AND FEDERAL SPENDING  
OF A 75-CENT CIGARETTE EXCISE TAX INCREASE**

There are various estimates of the additional revenues that would accrue to the federal government from a 75-cent increase in the cigarette excise tax. The most widely used estimate is \$10.4 billion. This is an estimate of the net additional revenues from such a tax increase. Actual revenues would be considerably less than half this amount. This is why:

The tobacco component of the Consumer Price Index (CPI) is about two percent (1.7458 percent). Therefore, a 75-cent tax increase on cigarettes would translate into a seven-tenths of one percent increase in the CPI, given the current price of cigarettes. This increase will lead to a similar increase in all indexed spending at the federal level -- Social Security, food stamps, federal pension programs and so on. At 1993 spending levels, this would amount to \$4 billion in additional obligated federal spending and loss of revenue from income tax indexing.

Various additional increases in federal spending would occur as tobacco workers are displaced by a cigarette tax increase, and as a result receive unemployment benefits and pay less income taxes. (There also would be less state excise tax revenue as cigarette consumption declines.) A reasonable estimate of these losses is \$1.8 billion.

Therefore, actual federal revenues from a 75-cent cigarette tax increase would be: \$10.4 billion - \$5.8 billion = \$4.6 billion. This is less than half of the estimated revenues.

There has been some discussion of taking tobacco products out of the CPI for the purpose of indexing federal programs. This makes no sense whatsoever. In fact, Patrick Jackman, the chief economist for the CPI division of the Bureau of Labor Statistics, indicated that the bureau is opposed to measures that would remove tobacco from the CPI. According to Jackman, "The CPI is supposed to represent expenditure patterns. You can't just unilaterally exclude something here if people are still spending their money on tobacco."

The marketbasket of goods for computing the CPI is longstanding and widely followed by the economics profession and financial markets as a reliable indication of inflation. Its administration has been consistent, professional and credible. Indeed, during the recent spate of cigarette price reductions, government officials proudly touted the fall in the Producer Price Index (PPI) as a result of a decline in cigarette prices. To include tobacco in the PPI when it produces good news and to exclude it when it produces bad news would be the height of hypocrisy and would politicize and seriously devalue an economically objective standard.

### DEBUNKING THE "SOCIAL COSTS" OF SMOKING

Some people claim that smoking is not strictly a personal choice, but imposes external "social costs" on our nation, and that smokers should compensate by paying higher taxes.

- In economics, "social costs" are activities of one group of individuals that impose significant costs on another group. Environmental pollution, for example, in which a company discharges waste products into a community water supply, constitutes a "social cost."

Private costs, in contrast, are activities on the part of one individual that do not, generally, impose costs on others. In these cases, the costs are borne by the individuals who undertake the activity directly. Smoking falls into this category.

- Almost one-third of medical expenses related to any illness or injury are private costs, paid directly by the individual. Private insurance companies and government-financed health care programs usually cover the rest. Health insurers who have established different premium rates for smokers and nonsmokers have done so without benefit of actuarial studies to support these rate differentials. The 1989 Surgeon General's Report acknowledged that "there is little supportive actuarial evidence that nonsmokers incur fewer claims."
- Funding for government programs such as Medicaid and Medicare comes from all taxpayers, smokers and nonsmokers alike. Contributing to such programs is considered beneficial for all participants and, like any social insurance program, the benefit to some taxpayers will be greater in value than their actual contribution.

It is difficult to determine who gains and who loses under such a system -- so difficult, in fact, that even a staff report from the Office of Technology Assessment on the claimed "costs" of smoking declined to address this issue, calling it too "complex."

- However, if these government programs were being overused by smokers, as the American Medical Association has claimed, one could argue that smokers were creating additional costs for others. To the contrary, however, smokers as a group are very much underrepresented in the population groups served by these programs.

Forty-five percent of those served by Medicaid, for example, are children; 15 percent of Medicaid beneficiaries and more than 90 percent of Medicare beneficiaries are over age 65 -- an age group in which only 16 percent are smokers.

- Nevertheless, a American Medical Association report claims that smokers "cost" the health care system \$22 billion annually. Of that total, the AMA claims that

the government spent \$4.2 billion in the Medicaid and Medicare programs on tobacco-related illnesses.

- Smokers already pay \$11.3 billion in federal, state and local cigarette excise taxes and another \$2 billion in additional sales taxes, for a total of \$13.3 billion.

Given the enormous contribution that smokers already make to government health care financing -- in excise and sales taxes, personal income and Social Security taxes and other fees, there is ample reason to suggest that smokers are subsidizing nonsmokers in these programs -- not the other way around.

### FEDERAL REPORTS INDICATE SMOKERS PAY THEIR OWN WAY -- AND THEN SOME

Contrary to some assertions, smokers currently make enormous contributions to government health care financing -- in excise and sales taxes, personal income and Social Security taxes and other fees. Smokers appear already to be subsidizing nonsmokers in these programs, not the other way around as some antismokers claim.

- A recent Centers for Disease Control and Prevention (CDC) study claims smoking-related illnesses "cost" Americans \$50 billion in direct medical expenses, or \$2.06 per pack of cigarettes. CDC asserts that "[f]or each of the 25 billion packs of cigarettes sold in 1993, approximately \$2.02 was spent on medical-care costs attributable to smoking. Of the \$2.02, approximately \$0.87 was paid for through public sources."

Accepting CDC's assertion for the sake of argument, more than half of CDC's estimated medical expenses are expenses that are not borne by government but are paid by smokers through out-of-pocket spending and private health insurance. The balance -- about \$22 billion -- is more than covered through \$13.3 billion in excise and sales taxes on cigarettes (that smokers alone pay) and payroll contributions to Federal and state health plans (that smokers and nonsmokers make alike).

Other recently published economic analyses, from the Congressional Office of Technology Assessment (OTA) and the Congressional Research Service (CRS), conclude that the excise taxes paid by smokers exceed the "costs" of federal, state and local government funding of health care expenditures attributed to smoking-related illnesses.

- In a report released in May 1993, the OTA estimated that smokers "cost" federal, state and local governments \$8.9 billion in health care expenditures for illnesses viewed as "smoking-related." Assuming the validity of that estimate for the sake of discussion, smokers currently pay federal, state and local governments \$11.3 billion in cigarette excise taxes and another \$2 billion in sales taxes. The total tax collection of \$13.3 billion is a tax that only smokers pay.

Thus, the OTA data indicates that smokers currently pay \$4.4 billion more to federal state and local governments than the \$8.9 billion that OTA claims smokers "cost" all levels of government.

The OTA further estimates the federal government's share of these governmental "costs" at \$6.3 billion. This translates to \$.24 per pack of cigarettes sold -- the current level of the federal excise tax on cigarettes.

- Newly released data from the CRS underscores the OTA estimates. In its March 1994 report to Congress, the CRS concluded:

"Mid-range estimates based upon likely assumptions suggest net external costs from smoking in the range of 33 cents per pack in 1995 prices, an amount that by itself is too small to justify either current cigarette taxes (averaging 50 cents per pack) or the proposed tax increase."

TP,

Fyi, Lisa Powell

put this together.

Some interesting  
points -- don't know  
how WKA is using  
this.

Amy

Distribute

(Amy) good to  
mail out?

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