

IMPACTS OF STATE AND FEDERAL CIGARETTE EXCISE TAX CHANGES IN VIRGINIA

The current federal cigarette tax in the United States is \$2.40/carton. A \$20.00/carton federal excise tax increase would raise the federal excise tax on cigarettes to \$22.40/carton, representing an 833% increase.

TAX BURDEN - The tax burden on cigarettes in Virginia is currently (FY'93*) \$3.50/carton or 21% of the price of a carton of cigarettes.

- \$2.20/carton federal tax**
- \$0.25/carton state tax
- \$0.39/carton local tax
- \$0.66/carton sales tax
- \$16.59/carton average retail price

If a federal excise tax increase of \$20.00/carton was to be enacted 1/1/94, the tax burden on cigarettes in Virginia would increase to \$24.59/carton. Total federal, state, local, and sales cigarette taxes will represent 63% of the price per carton.

- \$22.40/carton federal tax
- \$0.25/carton state tax
- \$0.39/carton local tax
- \$1.55/carton sales tax
- \$39.08/carton average retail price

UNFAIR - Smokers in Virginia currently pay approximately \$223 million in cigarette taxes. (\$140 million federal, \$16 million state, \$25 million local, and \$42 million sales). This contribution is too great for any one group of consumers to bear when these taxes benefit everyone in the state. (Based on preliminary Tobacco Institute data for FY'92 and estimates for FY'93)

REGRESSIVE - Excise taxes in Virginia, such as those on tobacco, take about two and one half times the amount from the poorer consumers with incomes below \$14,100, than from the middle class with incomes exceeding \$58,800. (Source: Citizens for Tax Justice)

JOBS - The tobacco industry creates 139,700 jobs in Virginia and these tobacco-related employees receive almost \$3.2 billion in compensation. **Total jobs lost due to the potential federal cigarette excise tax increase = 44,249.** (Based on TMA/WEFA 1990 data)

- 42,037 from \$20.00/carton state cigarette tax increase
- 2,212 from \$0.89/carton cigarette sales tax increase

Approximately 58% of the job losses, 25,599, will occur in the core and supplier sectors. Tobacco core and supplier sector jobs include tobacco growers, warehouse auctioneers, manufacturers, wholesalers, retailers, and direct supporters (i.e. chemical, paper, machinery, and plastics employees).

REVENUE EROSION - The \$20.00/carton federal cigarette excise tax increase would result in approximately 263 million packs lost over a two year period (FY'94 and FY'95). In fact, the state stands to lose nearly \$6.58 million in state excise tax revenues alone. (Based on Tobacco Institute and NCSL Study: Effect of Proposed Federal Excise Tax Rate Increases on State Excise Tax Revenues)

* Fiscal Year represents July 1 through June 30 of the following year, i.e. FY'93 = 7/1/92 - 6/30/93.

** Federal excise tax rate for first half of FY'93 = \$2.00/carton, then increased to \$2.40/carton for the second half of FY'93. The average federal excise tax rate for FY'93 is equal to \$2.20/carton.