



MEMORANDUM

TO: A. Pasheluk
FROM: D. Todd
DATE:
SUBJECT: New York State Excise Tax Increase

Background

Effective March 1, 2000, the State of New York raised its excise tax on cigarettes to \$1.11 per pack, up from 56¢ a pack. The expected decline in cigarette sales volume has occurred after this tax increase, as illustrated in weekly EXCEL data.

Although decreased consumption may be a contributing factor to less cigarette sales in New York subsequent to the tax increase, it is also reasonable to assume that current smokers are now obtaining cigarettes from outside the State and/or from sources not tracked in the EXCEL program.

With EXCEL data, the analysis of volume decline in New York State after the tax increase relates to the following considerations:

- **Cigarette smuggling.** Are smugglers purchasing quantities of cigarettes in low-tax States such as Virginia, North Carolina and Kentucky and then reselling these products on the black market in New York?
- **Out-of-State sales.** Is there a trend that would suggest New York State consumers and/or retailers have started to purchase cigarettes in bordering States because they are less heavily taxed, and therefore, less expensive?
- **Lower-priced brands.** Are smokers in New York State switching from full price brands to generic, private label and deep-discount brands (primarily from minor manufacturers) due to higher retail prices caused by the cigarette excise tax increase?

Key Findings

- **Cigarette smuggling from low-tax States (Virginia, North Carolina and Kentucky) into New York State does not appear to have significantly increased as a result of the 3/1/00 excise tax increase in New York.**

1. Average weekly volume to-date for these low-tax States, as a percentage of total

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2. U.S. volume, is almost identical to 1999 weekly average volume. This would indicate quantities of cigarettes are not being purchased in VA, NC and KY for sale in New York State (or other places).
 3. Average weekly volume in New York State, as a percentage of total U.S. volume, has decreased significantly since March 1st. This is not unusual given the inventory loading that occurred prior to the tax hike. As with other States like California, a period of inventory burn-off usually follows a major tax increase.
 4. It is too soon to determine the sales volume trend in New York State after the tax increase, because only 5 weeks of EXCEL data are currently available.
- **It appears that cigarette sales in the States bordering New York State have not increased as a result of New York consumers seeking lower prices across state lines.**
 1. Of the five States (NJ, PA, CT, MA and VT) bordering New York, only Vermont has shown an increase in EXCEL volume compared to YAG, since the tax rate increase was implemented in NY.
 2. In these five bordering States, a total of ten Lorillard Sales Divisions closest to the NY border were analyzed to see if their volume had increased significantly. Again, EXCEL data suggests New York consumers are not crossing state lines to purchase quantities of cigarettes at lower prices.
 - **It appears private label brands and deep-discount brands are growing at a faster rate than full-price and generics.**
 1. For total U.S., New York State and the 5 bordering State's, deep-discount volume has grown both before and after the tax increase on 3/1/00 when compared to the same period YAG.
 2. In some of these same markets, private labels brands (especially from Liggett) have also had substantial volume growth compared to YAG.
 3. This would suggest consumers are driven by retail pricing, and full-price and generics brands are losing share and volume to private label brands and deep-discount brands.

Conclusions

- EXCEL volume data show a significant decline in New York State's volume after the 3/1/00 tax increase was implemented. However, it is doubtful this decline is totally attributable to black market sales of smuggled cigarettes nor to New York consumers and retailers purchasing cigarettes across state lines.
- It is reasonable to expect a volume decline in New York State caused in part by a burn-off period resulting from inventory loading prior to the tax increase.

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- Additionally, alternate channels of trade (Internet and mail order sales) that are not tracked by the EXCEL program may also have contributed to New York's volume decrease.
- Sales of deep-discount brands continue to increase, taking volume from full-priced brands and generics. This would indicate not only brand switching by consumers, but also a decision to purchase fewer full-price products.
- Cigarette consumption continues to decline nationally.

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