



Cigarette Taxes and Cigarette Smuggling by State, 2020

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Key Findings:

- Excessive tax rates on cigarettes induce substantial black and gray market movement of tobacco products into high-tax states from low-tax states or foreign sources.
- New York has the highest inbound smuggling activity, with an estimated 53.5 percent of cigarettes consumed in the state deriving from smuggled sources in 2020. New York is followed by California (44.8 percent), New Mexico (45.5 percent), Washington (41.5 percent), and Minnesota (34.8 percent).
- New Hampshire has the highest level of net outbound smuggling at 52.4 percent of consumption, likely due to its relatively low tax rates and proximity to high-tax states in the northeastern United States. Following New Hampshire is Indiana (35.6 percent), Virginia (27.6 percent), Idaho (25.8 percent), Wyoming (24.4 percent), and North Dakota (18.6 percent).
- Illinois and New Mexico significantly increased their cigarette tax rate from 2019 to 2020. Both states saw major increases in cigarette smuggling.
- Policymakers interested in increasing tax rates should recognize the unintended consequences of high taxation rates. Criminal distribution networks are well-established and illicit trade will grow as tax rates rise.

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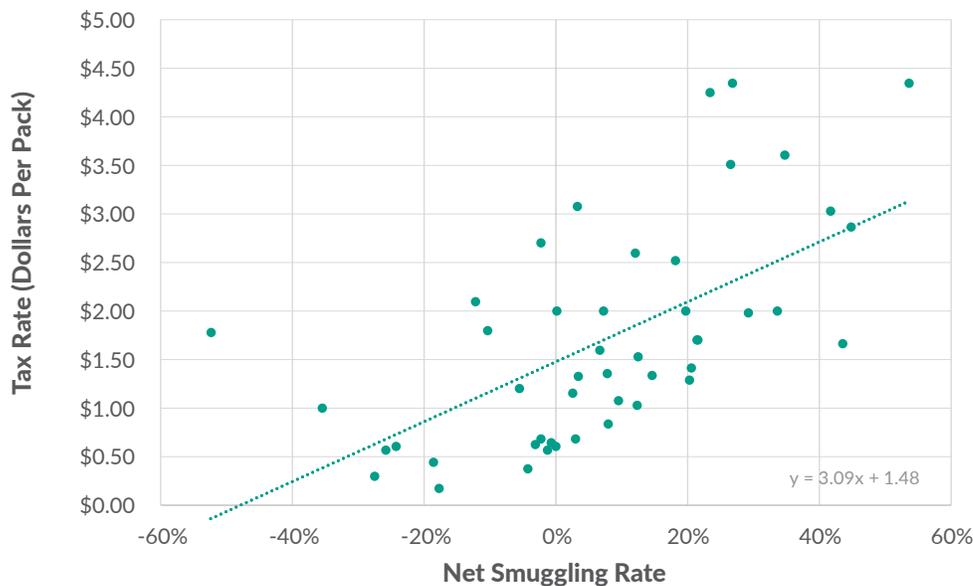
Tobacco Tax Differentials Incentivize Smuggling

People respond to incentives. As tax rates increase or products are banned from sale, consumers and producers search for ways around these penalties and restrictions. In cigarette markets, consumers tend to shop across borders where the tax rates are lower and dealers develop black and gray markets to sell illegally to consumers, paying little or no tax at all. Growing cigarette tax differentials have made cigarette smuggling both a national problem and a lucrative criminal enterprise.

Each year, scholars at the Mackinac Center for Public Policy estimate cigarette smuggling rates for each state.¹ Their most recent report uses 2020 data and finds a strong positive relationship between cigarette smuggling and tax rates across U.S. states and the District of Columbia. The data also demonstrate that when states increase their cigarette taxes, smuggling rates increase, both in the form of increased purchases in neighboring states and through illicit international channels.

FIGURE 1.
Cigarette Smuggling Increases as Excise Tax Rates Increase

Cigarette Smuggling vs. Cigarette Excise Tax Rates, 2020



Source: Mackinac Center for Public Policy, Tax Foundation, and author calculations.

The biggest increase in smuggling from 2019-2020 came in Illinois. Illinois increased its cigarette tax rate by \$1.00 per pack, resulting in a new state excise tax of \$2.98. Including the \$3.00 per pack tax in Cook County and \$1.18 per pack in the city of Chicago brings the total taxes in Chicago to \$7.16 per pack. The cigarette taxes in America's third-largest city are the highest in the country.

Net cigarette smuggling in Illinois increased by more than 14 percentage points in 2020, an estimated increase of nearly 44 million cigarettes smuggled. This increase was greater than all other states combined, moving the state from the 16th highest to the 7th highest inbound smuggling rate in the country. Overall, Illinois missed out on more than \$334 million in cigarette taxes in 2020 due to smuggling, an increase of nearly \$200 million from 2019.

1 Michael Lafaive, Todd Nesbit, and Ulrik Boesen, "Cigarette Taxes & Smuggling," Mackinac Center for Public Policy, June 2022, <https://www.mackinac.org/smokes>.

Illinois' neighbors—Indiana, Iowa, Kentucky, and Wisconsin—all saw an increase in outbound smuggling. Table 1 shows that outbound smuggling increased by 17.7 percentage points in Indiana, more than \$42 million worth of revenue for the Hoosier State, moving Indiana down four spots in the ranking of states by net inbound smuggling. Wisconsin also saw an increase in outbound smuggling, adding more than \$15 million for the Badger State.

New Mexico increased its cigarette tax rate by \$0.34 per pack in 2020 and saw its smuggling rate increase by 6.3 percent, moving it two ranks higher and giving it the third-highest smuggling rate in the country, with smuggled cigarettes accounting for 43.46 percent of the total cigarette market. New Mexico lost an additional \$19.3 million from the increase in smuggling. Neighboring states Colorado, Oklahoma, and Texas all saw an increase in outbound smuggling, with the largest revenue effect coming from Texas.

Nationwide, New York continues to have the greatest rate of cigarette smuggling, with smuggled cigarettes accounting for 53.5 percent of total cigarette consumption in the state. New York also has one of the highest state cigarette taxes (\$4.35 per pack), not counting the additional local New York City cigarette tax (\$1.50 per pack), yielding a combined rate of \$5.85 per pack.

After New York, the highest rate of smuggling occurs in California (44.8 percent of consumption smuggled), New Mexico (45.5 percent), Washington (41.5 percent), and Minnesota (34.8 percent). Of the states for which the authors had data, the highest rates of outbound smuggling (least amount of net inbound smuggling) occur in New Hampshire (52.4 percent outbound smuggling), Indiana (35.6 percent), Virginia (27.6 percent), and Idaho (25.8 percent)

TABLE 1
Changes in Smuggling Rates and Revenues for States that Increased Cigarette Tax Rates and Their Neighboring States

	Smuggling Rate Change	Rank Change	Smuggling Effect Revenue Change
Illinois	14.0	9	\$(199,003,733)
Indiana	-17.7	-4	\$42,168,137
Iowa	-2.0	-1	\$4,523,284
Kentucky	-0.3	-1	\$900,556
Wisconsin	-1.6	-3	\$15,004,713
New Mexico	6.3	2	\$(19,315,895)
Colorado	-0.3	1	\$1,159,397
Oklahoma	-2.7	-2	\$(233,809)
Texas	-2.1	-5	\$43,111,200
Utah	0.3	-2	\$(456,948)

Source: Mackinac Center for Public Policy; Tax Foundation.

The inbound flow of cigarettes not appropriately taxed by New York costs the state roughly \$1.1 billion each year in lost revenue. And the state needs to use resources to address its black market problems. In 2020, following a long-term investigation into an individual's cigarette smuggling activity, a process including court-authorized search warrants, wiretaps, grand jury subpoenas,

and other investigative tools, New York seized more than \$1.3 million in cash and 6,267 cartons of untaxed cigarettes, according to a press release from the Queens' District Attorney.² But even law enforcement successes are costly and only stop a drop of water in the Hudson River of smuggling activity.

A sizable literature of peer-reviewed academic studies supports these findings.³ A 2017 study published in *Public Finance Review* provides the academic theory and estimates for how tax rates affect smuggling, highlighting that easily transportable goods (e.g., cigarettes) will be attractive cross-border shopping items.⁴ A 2018 study published in the same journal supported those findings by examining littered packs of cigarettes across 132 communities in 38 states, finding that 21 percent of packs did not have proper local stamps.⁵

LaFaive and Nesbit, the lead authors of the Mackinac Center study, note that smuggling comes in different forms: “casual” smuggling, where smaller quantities of cigarettes are purchased in one area and then transported for personal consumption, and “commercial” smuggling, which is a large-scale criminal activity that can involve counterfeit state tax stamps, counterfeit versions of legitimate brands, hijacked trucks, and officials turning a blind eye.⁶ The Mackinac Center provides several anecdotes of smuggling activity over the many editions of its report, including a prison guard caught smuggling cigarettes into prisons, a Maryland police officer running illicit cigarettes while on duty, and a Virginia man hiring a contract killer over a cigarette smuggling dispute.

States and municipalities have spent millions to combat cigarette smuggling. Recent policy responses include greater law enforcement activity on interstate roads,⁷ differential tax rates near low-tax jurisdictions,⁸ banning common carrier delivery of cigarettes,⁹ and cracking down on tribal reservations that sell tax-free cigarettes.¹⁰ However, the underlying problem persists. High cigarette taxes act similarly to a “price prohibition” on the legal product in many U.S. states, incentivizing smuggling and illicit activity.¹¹

2 “Cigarette Smuggler Pays More Than \$1.3 Million To New York State After Pleading Guilty to Grand Larceny,” Office of Queens District Attorney Melinda Katz, October 7, 2020, <https://queensda.org/cigarette-smuggler-pays-more-than-1-3-million-to-new-york-state-after-pleading-guilty-to-grand-larceny/>.

3 Cf Michael F. Lovenheim, “How Far to the Border?: The Extent and Impact of Cross-Border Casual Cigarette Smuggling,” *National Tax Journal* 61:1 (March 2008), <https://www.ntanet.org/NTJ/61/1/ntj-v61n01p7-33-how-far-border-extent.pdf?v=%CE%B1&r=04833355782549953>; R. Morris Coats, “A Note on Estimating Cross-Border Effects of State Cigarette Taxes,” *National Tax Journal* 48:4 (December 1995): 573-584, <https://www.ntanet.org/NTJ/48/4/ntj-v48n04p573-84-note-estimating-cross-border.pdf?v=%CE%B1&r=35923133871196367>; Mark Stehr, “Cigarette tax avoidance and evasion,” *Journal of Health Economics* 24:2 (March 2005): 277-297, <http://www.sciencedirect.com/science/article/pii/S0167629604001225>.

4 Adam J. Hoffer and Donald J. Lacombe, “Excise tax setting in a dynamic space-time framework,” *Public Finance Review* 45:5 (2017): 628-646.

5 Shu Wang, David Merriman, and Frank Chaloupka, “Relative Tax Rates, Proximity, and Cigarette Tax Noncompliance: Evidence from a National Sample of Littered Cigarette Packs,” *Public Finance Review* 47:2 (March 2019): 276-311.

6 Scott Drenkard, “Tobacco Taxation and Unintended Consequences: U.S. Senate Hearing on Tobacco Taxes Owed, Avoided, and Evaded,” Tax Foundation, July 29, 2014, <https://taxfoundation.org/tobacco-taxation-and-unintended-consequences-us-senate-hearing-tobacco-taxes-owed-avoided-and-evaded/>.

7 Gary Fields, “States Go to War on Cigarette Smuggling,” *The Wall Street Journal*, July 20, 2009, <http://www.wsj.com/articles/SB124804682785163691>.

8 Mark Robyn, “Border Zone Cigarette Taxation: Arkansas’s Novel Solution to the Border Shopping Problem,” Tax Foundation, Apr. 9, 2009, <http://taxfoundation.org/article/border-zone-cigarette-taxation-arkansas-novel-solution-border-shopping-problem>.

9 Curtis S. Dubay, “UPS Decision Unlikely to Stop Cigarette Smuggling,” Tax Foundation, Oct. 25, 2005, <https://taxfoundation.org/ups-decision-unlikely-stop-cigarette-smuggling/>.

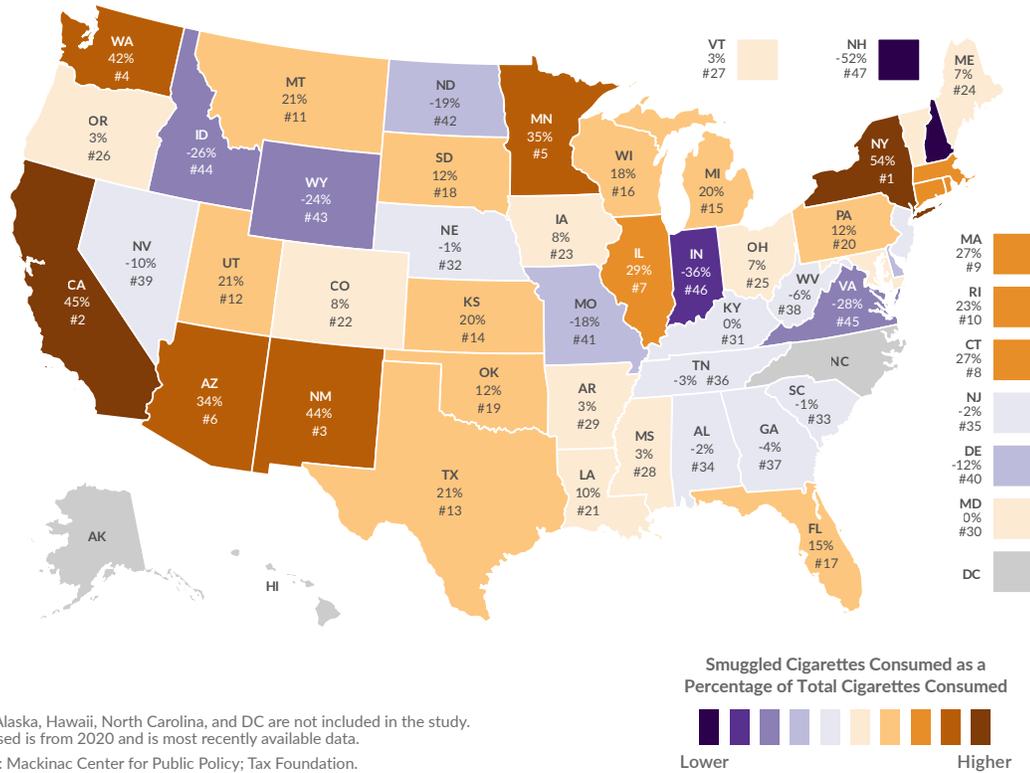
10 Joseph Bishop-Henchman, “New York Governor Signs Law to Tax Cigarettes Sold on Tribal Lands,” Tax Foundation, Dec. 16, 2008, <http://taxfoundation.org/blog/new-york-governor-signs-law-tax-cigarettes-sold-tribal-lands>.

11 Michael LaFaive, “Prohibition by price: Cigarette taxes and unintended consequences.” In *For Your Own Good: Taxes, Paternalism, and Fiscal Discrimination in the Twenty-First Century*, edited by Adam Hoffer and Todd Nesbit (2018).

FIGURE 2

Cigarette Smuggling by State

Smuggled Cigarettes Consumed as a Percentage of Total Cigarettes Consumed, 2020



International Smuggling and Counterfeiting Hurts Americans

Smuggling that occurs within the borders of the United States is mostly a zero-sum activity from a cost perspective, and smugglers may even facilitate an increase in total economic activity by decreasing the market tax burden, albeit at unacceptably high social costs (not to mention the innate criminal nature of the activity). A smuggler who legally purchases cigarettes in a low-tax area, such as North Carolina, and then sells the cigarettes in a high-tax area, like New York, still pays tax and buys American-produced goods. The tax gain for North Carolina is likely less than the tax loss for New York, while the lower effective (tax-reduced) price reduces costs for New York smokers. (It may also encourage additional consumption.)

However, some criminals avoid the legal market altogether. Rather than pay market prices and lower taxes on American-made cigarettes, certain criminals produce counterfeit cigarettes with the look and feel of legitimate American brands and sell them with counterfeit tax stamps, paying no tax whatsoever. In 2020, three men were arrested in Texas for transporting internationally produced illicit cigarettes. They admitted intentions to smuggle over 400 million cigarettes.¹²

12 St. John Barned-Smith and Gabrielle Banks, "Inside the lucrative smuggling operation that sees millions of Chinese cigarettes pass through Texas," *Houston Chronicle*, July 1, 2021, <https://www.houstonchronicle.com/news/houston-texas/crime/article/china-cigarettes-tobacco-trafficking-tx-16281704.php>.

Many counterfeit cigarettes in the U.S. are smuggled from China. Estimates put the Chinese counterfeit production as high as 400 billion cigarettes per year to meet international demand.¹³ Because of the enormous volume of product that ships into U.S. ports from China, it may be easier and lower cost to smuggle Chinese cigarettes in California markets through U.S. ports than to try to capitalize on tax arbitrage by transporting products across the continental U.S.

“Cheap whites” or “illicit whites” are a staple of the international counterfeit market. These generic-looking white cigarettes are produced legally in low-tax jurisdictions, but are often intended for smuggling.¹⁴ Reports from this year indicate that the Chinese tobacco monopoly is playing a significant role in the “illicit whites” tobacco markets in Central and South America. Some of these activities spill over into the United States.

There are real social costs associated with the smuggling of properly manufactured cigarettes, but they pale in comparison to the dangers posed by this counterfeit market. Internationally smuggled and counterfeit cigarettes are dangerous products as they do not live up to the quality control standards imposed on legitimate brand cigarettes. Researchers have found that counterfeit cigarettes can have as much as seven times the lead of authentic brands and close to three times as much thallium, a toxic heavy metal.¹⁵ Other sources report finding insect eggs, dead flies, mold, and human feces in counterfeit cigarettes.¹⁶

During the prohibition of alcohol in the United States during the 1920s, increased enforcement failed to significantly decrease the prevalence of bootlegging because the profit margins were so large, and the distribution networks sophisticated. The same is true for today’s cigarette smugglers.

In June 2019, Canadian authorities arrested nine people who reportedly smuggled over one million pounds of tobacco (valued at CA \$110 million). According to police, the group was involved in both theft and arms trafficking.¹⁷ That same year, European authorities arrested 22 people across five countries representing an organized crime ring suspected of large-scale cigarette trafficking, drug trafficking, assassinations, and money laundering which had netted an estimated \$750 million over two years.¹⁸ Last year in Spain, authorities busted an underground illegal cigarette factory. The organized crime network behind the operation is suspected of large-scale cigarette trafficking with profits estimated at \$647,000 per week.¹⁹

Global illicit trade in tobacco is a growing problem, but it’s considered low-risk, high-reward. Incentives matter. Billions of dollars are made each year through smuggling. To make matters worse,

13 Te-Ping Chen, “China’s Marlboro Country,” Center for Public Integrity, June 29, 2009, https://reportingproject.net/underground/index.php?option=com_content&view=article&id=9:chinas-marlboro-country&catid=3:stories&Itemid=22.

14 Roger Bate, Cody Kallen, and Aparna Mathur, “The perverse effect of sin taxes: the rise of illicit white cigarettes,” *Applied Economics*, Aug. 5, 2019, <https://www.tandfonline.com/doi/abs/10.1080/00036846.2019.1646403?journalCode=raec20>.

15 R.S. Pappas et al., “Cadmium, Lead, and Thallium in Smoke Particulate from Counterfeit Cigarettes Compared to Authentic US Brands,” *Food and Chemical Toxicology* 45:2 (Aug. 30, 2006): 202-209.

16 International Chamber of Commerce, Commercial Crime Services, “Counterfeit Cigarettes Contain Disturbing Toxic Substances,” <https://icc-ccs.org/index.php/360-counterfeit-cigarettes-contain-disturbing-toxic-substances>.

17 CTV News, “Nine arrested in major contraband tobacco bust,” June 26, 2019, <https://montreal.ctvnews.ca/nine-arrested-in-major-contraband-tobacco-bust-1.4483651>.

18 *The Guardian*, “More than 20 arrested across Europe in swoop on drug gang,” May 22, 2019, <https://www.theguardian.com/uk-news/2019/may/22/22-arrested-across-europe-in-swoop-on-alleged-dangerous-drug-gang>.

19 Graham Keeley, “British gang abandons workers in underground cigarette factory,” *Al Jazeera*, Feb. 20, 2020, <https://www.aljazeera.com/news/2020/2/20/british-gang-abandons-workers-in-underground-cigarette-factory>.

smuggling operations involve corruption, money laundering, and terrorism.²⁰ According to the Financial Action Task Force (FATF), “Large-scale organized smuggling likely accounts for the vast majority of cigarettes smuggled globally.”²¹ These operations hurt governments, who lose out on revenue; consumers, because the products often don’t adhere to health standards; legal businesses, which cannot compete with illicit products; and the general respect of the law.

Taxes Are Not the Only Policy That Encourages Smuggling

We can learn from cigarette taxes how other policies involving tobacco and nicotine products may affect consumer and producer behavior.

Most vapor product users, for example, also smoke or previously smoked cigarettes.²² As the price of vaping increases, fewer users will be willing to switch to vaping from smoking and more users will consider black market alternatives to paying hefty cigarette taxes. With the addition of Maryland in 2022, 30 states and the District of Columbia now levy a vaping excise tax.²³

Vaping devices have become difficult to sell because of regulatory changes at the Food and Drug Administration (FDA). The FDA is currently reviewing a backlog of applications for vapor products and so far has denied market approval for almost all of them.²⁴ The biggest headline in the vaping space in 2022 was the FDA’s marketing denial order for Juul, forcing all of Juul’s products off U.S. shelves.²⁵ The FDA’s Juul ban was put on hold following a lawsuit from Juul, but the future remains uncertain for most U.S. vaping products. Moreover, it is still unclear what will remain of the nicotine market after the FDA’s premarket tobacco application (PMTA) review process.

As the data from cigarettes clearly show, the risk of creating a new black market or fueling an existing one with operators willing and able to supply nicotine products to consumers is significant. In addition to tax evasion—costing states billions in lost tax revenue—black market e-liquid and cigarettes can be extremely unsafe.²⁶ Multiple reports have confirmed nicotine-containing liquid coming into the U.S. from questionable sources.²⁷ In 2019, cases of serious pulmonary diseases prompted the FDA to publish a warning about black market THC-containing liquid (the psychoactive compound in marijuana).²⁸ Reports of illicit products containing dangerous chemicals resulting in

20 Al Qaeda has made millions of dollars selling counterfeit cigarettes. See Francesca Astorri, “EXCLUSIVE: How extremists smuggled \$1 billion in cigarettes to finance terror,” AlArabiya News, May 20, 2020, <https://english.alarabiya.net/features/2017/10/14/Smuggling-cigarettes-new-source-of-terror-financing-worth-1bn-in-North-Africa>; DOS, DOJ, DOT, DOHS, DOHHS, “The Global Illicit Trade in Tobacco: A Threat To National Security,” December 2015, <https://2009-2017.state.gov/documents/organization/250513.pdf>.

21 The Financial Action Task Force (FATF), “FATF Report: Illicit Tobacco Trade,” June 2012, 9, <https://www.fatf-gafi.org/media/fatf/documents/reports/Illicit%20Tobacco%20Trade.pdf>.

22 Truth Initiative, “E-cigarettes: Facts, stats and regulations,” July 19, 2018, <https://truthinitiative.org/research-resources/emerging-tobacco-products/e-cigarettes-facts-stats-and-regulations>.

23 Adam Hoffer, “Vapor Taxes by State, 2022,” July 5, 2022, <https://taxfoundation.org/vapor-taxes-2022/>.

24 Katherine Ellen Foley, “FDA says more than 5 million electronic cigarettes must be taken off the market,” Politico, Sept. 9, 2021, <https://www.politico.com/news/2021/09/09/fda-electronic-cigarettes-off-market-510967>.

25 U.S. Food and Drug Administration, “FDA Denies Authorization to Market JUUL Products,” June 23, 2022, <https://www.fda.gov/news-events/press-announcements/fda-denies-authorization-market-juul-products>.

26 National Research Council and Institute of Medicine, *Understanding the U.S. Illicit Tobacco Market: Characteristics, Policy Context, and Lessons from International Experiences* (Washington, DC: National Academies Press, 2015), 4, <https://www.nap.edu/read/19016/chapter/1>.

27 Julie Bosman and Matt Richtel, “Vaping Bad: Were 2 Wisconsin Brothers the Walter Whites of THC Oils?” *The New York Times*, Sept. 17, 2019, <https://www.nytimes.com/2019/09/15/health/vaping-thc-wisconsin.html>.

28 U.S. Food and Drug Administration, “Vaping Illness Update: FDA Warns Public to Stop Using Tetrahydrocannabinol (THC)-Containing Vaping Products and Any Vaping Products Obtained Off the Street,” Oct. 4, 2019, <https://www.fda.gov/consumers/consumer-updates/vaping-illnesses-consumers-can-help-protect-themselves-avoiding-tetrahydrocannabinol-thc-containing>.

serious medical conditions also arose in 2019.²⁹ Providing vapers with a well-regulated legal market will limit the distribution of illegal products.

Flavor bans are perhaps the biggest policy issue involving tobacco and nicotine products over the past decade. Several states and municipalities are considering flavor bans on cigarettes and e-vapors.³⁰ This year, the FDA proposed a rule that would prohibit the sale of menthol cigarettes and flavored cigars.³¹ If imposed, the decrease in state and federal revenues would be substantial and likely fuel significantly higher levels of cigarette smuggling.³²

The first and only state to implement a statewide menthol flavor ban is Massachusetts. Their menthol flavor ban took effect in June 2020. In the 12 months following implementation, sales in the Bay State declined by almost 24 percent compared to the 12 months preceding the ban. Through the end of 2021, sales were down more than 25 percent compared to sales from 2019. This decline translates to \$135 million less cigarette tax revenue for Massachusetts (not including lost revenue from sales tax and smokeless tobacco sales).

Importantly, these sales did not disappear; most of the transactions merely moved to neighboring states or to illicit markets. Throughout most of the U.S. and all the New England states, cigarette sales have constantly declined since the 1960s. It was telling when sales of cigarettes in New Hampshire increased by 22 percent and sales in Rhode Island increased by 18 percent in the 12 months following the Massachusetts menthol ban. Sales in New Hampshire and Rhode Island remain roughly 10 percent higher in 2021 than in 2019 thanks to cross-border Massachusetts shoppers and smugglers.

Legal markets suffer as untaxed and unregulated products have significant competitive advantages over high-priced legal products. In addition to the dangers illicit markets create for consumers, illegal markets harm the large number of small business owners operating vape shops, convenience stores, and gas stations around the country. The impact on local businesses has led multiple Massachusetts lawmakers to consider repealing the state's ban on flavored tobacco.³³

Looking to the future, the Biden Administration and the FDA committed to issuing a proposed product rule by May 2023 that would mandate a reduction of nicotine levels in cigarettes by as much as 95 percent.³⁴ If implemented, the rule would amount to a prohibition on cigarettes. Overnight, all sales of traditional cigarettes would be classified as black market activity. Smuggling would skyrocket. Policymakers should consider the unintended consequences as they set rates and regulatory regimes for all tobacco and nicotine products.

29 David Downs, Dave Howard, and Bruce Barcott, "Journey of a tainted vape cartridge: from China's labs to your lungs," Leafly, Sept. 24, 2019, <https://www.leafly.com/news/politics/vape-pen-injury-supply-chain-investigation-leafly>; Conor Ferguson, Cynthia McFadden, Shanshan Dong, and Rich Schapiro, "Tests show bootleg marijuana vapes tainted with hydrogen cyanide," NBC News, Sept. 27, 2019, <https://www.nbcnews.com/health/vaping/tests-show-bootleg-marijuana-vapes-tainted-hydrogen-cyanide-n1059356>.

30 Adam Hoffer, "New Jersey Menthol Ban Will Be All Pain and No Gain," July 27, 2022, <https://taxfoundation.org/new-jersey-menthol-cigarette-ban/>.

31 U.S. Food and Drug Administration, "FDA Proposes Rules Prohibiting Menthol Cigarettes and Flavored Cigars to Prevent Youth Initiation, Significantly Reduce Tobacco-Related Disease and Death," April 28, 2022, <https://www.fda.gov/news-events/press-announcements/fda-proposes-rules-prohibiting-menthol-cigarettes-and-flavored-cigars-prevent-youth-initiation>

32 Ulrik Boesen, "Federal Menthol Cigarette Ban May Cost Governments \$6.6 Billion," March 2, 2022, <https://taxfoundation.org/federal-menthol-cigarette-ban/>; Adam Hoffer, "FDA Ban on Flavored Cigars Could Cost \$836 Million in Annual Excise Tax Revenue," August 17, 2022, <https://taxfoundation.org/fda-ban-flavored-cigars/>; Ulrik Boesen, "Banning Flavored Tobacco Could Have Unintended Consequences," Tax Foundation, Feb. 12, 2020, <https://www.taxfoundation.org/banning-flavored-tobacco-unintended-consequences/>.

33 Jodi Reed, "State lawmakers to consider repealing ban on menthol cigarettes and flavored tobacco," WWLP, Nov. 3, 2021, <https://www.wwlp.com/news/state-politics/state-lawmakers-to-consider-repealing-ban-on-menthol-cigarettes-and-flavored-tobacco/>.

34 Executive Office of the President, "Tobacco Product Standard for Nicotine Level of Certain Tobacco Products," June 21, 2022. <https://www.reginfo.gov/public/do/eAgendaViewRule?publd=202204&RIN=0910-A176>.

TABLE 2

2020 Cigarette Tax Rates, Smuggling Percentages, and Changes Since 2006

State	2020 State Tax Rate	Tax Rate Change (2019-2020)	2020 Smuggling Rates (positive is inflow, negative is outflow)	2020 Rank	Rank Change (2019-2020)	Tax Rate Increase Since 2006	2020 Smuggling Revenue Impact	Smuggling Effect Revenue Change (2019-2020)
Alabama	\$0.68	0.0	-2.32%	34	0	59%	\$3,814,685	\$(647,939)
Arizona	\$2.00	0.0	33.53%	6	-2	69%	\$(153,654,548)	\$21,113,456
Arkansas	\$1.15	0.0	2.49%	29	0	No change	\$(4,209,441)	\$(132,073)
California	\$2.87	0.0	44.82%	2	0	230%	\$(1,391,937,097)	\$134,781,930
Colorado	\$0.84	0.0	7.96%	22	1	No change	\$(12,222,957)	\$1,159,397
Connecticut	\$4.35	0.0	26.69%	8	-1	188%	\$(117,536,590)	\$4,657,733
Delaware	\$2.10	0.0	-12.23%	40	0	282%	\$11,628,819	\$(906,220)
Florida	\$1.34	0.0	14.57%	17	1	294%	\$(172,771,798)	\$427,120
Georgia	\$0.37	0.0	-4.24%	37	0	No change	\$6,682,254	\$(250,472)
Idaho	\$0.57	0.0	-25.80%	44	2	No change	\$7,130,835	\$(947,583)
Illinois	\$1.98	100.0	29.21%	7	9	204%	\$(334,051,938)	\$(199,003,733)
Indiana	\$1.00	0.0	-35.56%	46	-4	79%	\$98,982,271	\$42,168,137
Iowa	\$1.36	0.0	7.81%	23	-1	278%	\$(15,027,410)	\$4,523,284
Kansas	\$1.29	0.0	20.23%	14	1	63%	\$(29,861,189)	\$(735,062)
Kentucky	\$0.60	0.0	-0.07%	31	-1	267%	\$242,018	\$900,556
Louisiana	\$1.08	0.0	9.52%	21	0	200%	\$(26,113,609)	\$6,922,163
Maine	\$2.00	0.0	7.24%	24	0	No change	\$(9,549,740)	\$829,006
Maryland	\$2.00	0.0	0.04%	30	1	100%	\$(137,433)	\$258,054
Massachusetts	\$3.51	0.0	26.52%	9	3	132%	\$(172,646,363)	\$(39,524,710)
Michigan	\$2.00	0.0	19.65%	15	-1	No change	\$(195,055,804)	\$4,630,113
Minnesota	\$3.61	2.2	34.76%	5	1	146%	\$(268,511,137)	\$11,513,926
Mississippi	\$0.68	0.0	2.93%	28	0	36%	\$(3,334,730)	\$(34,419)
Missouri	\$0.17	0.0	-17.78%	41	0	No change	\$11,362,796	\$752,021
Montana	\$1.70	0.0	21.44%	11	0	No change	\$(17,578,901)	\$188,462
Nebraska	\$0.64	0.0	-0.71%	32	0	No change	\$347,616	\$(72,203)
Nevada	\$1.80	0.0	-10.45%	39	0	125%	\$15,781,648	\$(2,793,648)
New Hampshire	\$1.78	0.0	-52.40%	47	0	123%	\$67,691,087	\$(10,441,724)
New Jersey	\$2.70	0.0	-2.38%	35	0	13%	\$13,121,679	\$(2,474,874)
New Mexico	\$1.66	34.0	43.46%	3	2	120%	\$(65,631,736)	\$(19,315,895)
New York	\$4.35	0.0	53.51%	1	0	190%	\$(1,093,105,229)	\$63,177,060
North Dakota	\$0.44	0.0	-18.62%	42	1	No change	\$3,086,808	\$62,365
Ohio	\$1.60	0.0	6.66%	25	0	28%	\$(60,397,981)	\$7,015,881
Oklahoma	\$1.03	0.0	12.28%	19	-2	97%	\$(52,331,494)	\$(233,809)
Oregon	\$1.33	0.0	3.29%	26	0	15%	\$(6,407,460)	\$649,735
Pennsylvania	\$2.60	0.0	12.03%	20	0	93%	\$(158,976,717)	\$18,888,788
Rhode Island	\$4.25	0.0	23.33%	10	-1	73%	\$(39,693,441)	\$(22,919)
South Carolina	\$0.57	0.0	-1.37%	33	0	14%	\$1,885,882	\$(38,897)
South Dakota	\$1.53	0.0	12.38%	18	1	189%	\$(6,979,967)	\$340,558
Tennessee	\$0.62	0.0	-3.17%	36	0	210%	\$6,787,032	\$(397,354)
Texas	\$1.41	0.0	20.50%	13	-5	244%	\$(300,290,879)	\$43,111,200
Utah	\$1.70	0.0	21.35%	12	-2	145%	\$(23,810,599)	\$(456,948)
Vermont	\$3.08	0.0	3.16%	27	0	72%	\$(1,909,160)	\$166,795
Virginia	\$0.30	0.0	-27.58%	45	0	No change	\$29,415,891	\$(1,177,891)
Washington	\$3.03	0.0	41.58%	4	-1	49%	\$(231,269,123)	\$17,206,019
West Virginia	\$1.20	0.0	-5.51%	38	0	118%	\$8,326,778	\$(956,903)
Wisconsin	\$2.52	0.0	18.15%	16	-3	227%	\$(117,074,083)	\$15,004,713
Wyoming	\$0.60	0.0	-24.35%	43	1	No change	\$3,160,338	\$(49,266)

Note: Alaska, Hawaii, North Carolina, and the District of Columbia are not included in the study. Cigarette tax rates have changed for eight states since 2019 (Colorado, Illinois, Kentucky, Maryland, New Mexico, Oklahoma, Oregon, and Virginia) but are not reflected in the study.

Source: Mackinac Center for Public Policy, Tax Foundation, and author calculations.