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# Tobacco Taxes, Revenue, & Consumption

## Summary

The Wyoming Tobacco Prevention and Control Program (TPCP) shares two key goals with the federal tobacco prevention and control program (a) increase tobacco quit attempts and successes (Centers for Disease Control and Prevention [CDC], 2015) and (b) reduce youth initiation (CDC, 2014b). Cigarette taxation is a well-documented and effective policy for governments to deter current and future smoking (CDC, 2014a; Hyland et al., 2005).

Taxation reduces consumption by increasing the price of cigarettes. Economic studies have demonstrated that increasing the unit price for tobacco products by 20% would reduce overall consumption of tobacco products by 10.4%, prevalence of adult tobacco use by 3.6%, and initiation of tobacco use by young people by 8.6% (Guide to Community Preventive Services, 2015). In Wyoming, a \$1.00 price increase would decrease consumption by 6% while generating additional revenue (WYSAC, 2014).

Wyoming last raised the cigarette excise tax from \$0.12 to \$0.60 per pack on July 1, 2003 (WY Stat § 39-18-104). This price change resulted in a decrease in cigarette consumption and an increase in tax revenue. As predicted by WYSAC's statistical model, an additional increase of \$1.00 per pack in the tax rate could generate a total annual tax revenue of \$48.315 million (WYSAC, 2014).

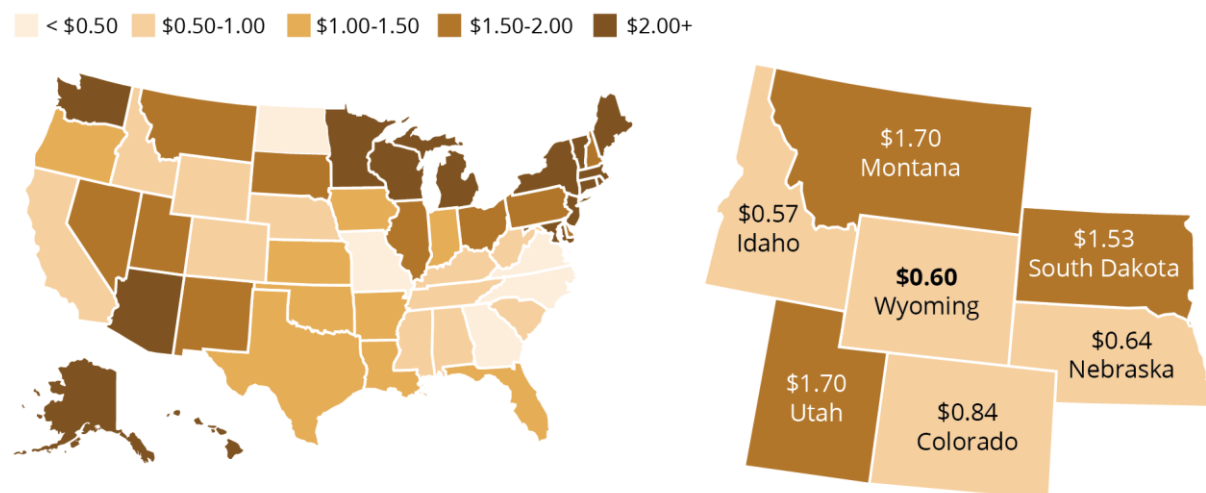
## Excise Taxes in Wyoming and in the United States

Taxation is the primary means available to governments to influence the retail price of cigarettes (CDC, 2014b; Starr et al., 2005). Excise taxes are levied at different levels of government (i.e., federal, state, and local) on each unit of a specified good (e.g., \$0.60 on each pack of cigarettes). Currently, no counties or municipalities in Wyoming levy an excise tax on cigarettes (Orzechowski & Walker, 2015). Wyoming last raised the state cigarette excise tax on July 1, 2003, when the rate increased from \$0.12 to \$0.60 per pack (WY Stat § 39-18-104). On April 1, 2009, the federal cigarette excise tax increased from \$0.39 to \$1.01 per pack, an increase of \$0.62.

Across the nation, state tax rates vary considerably with a low of \$0.17 per pack in Missouri to a high of \$4.35 per pack in New York (Figure 1). As of 2015, Wyoming's current tax rate (\$0.60) is below the weighted U.S. average of \$1.28 (Orzechowski & Walker, 2015). It is the 9th lowest in the nation (tied with the tobacco-producing state of Kentucky; CDC, 2016).

### Figure 1: Wyoming has Low Cigarette Excise Tax

*State cigarette excise taxes (per pack), 2016*



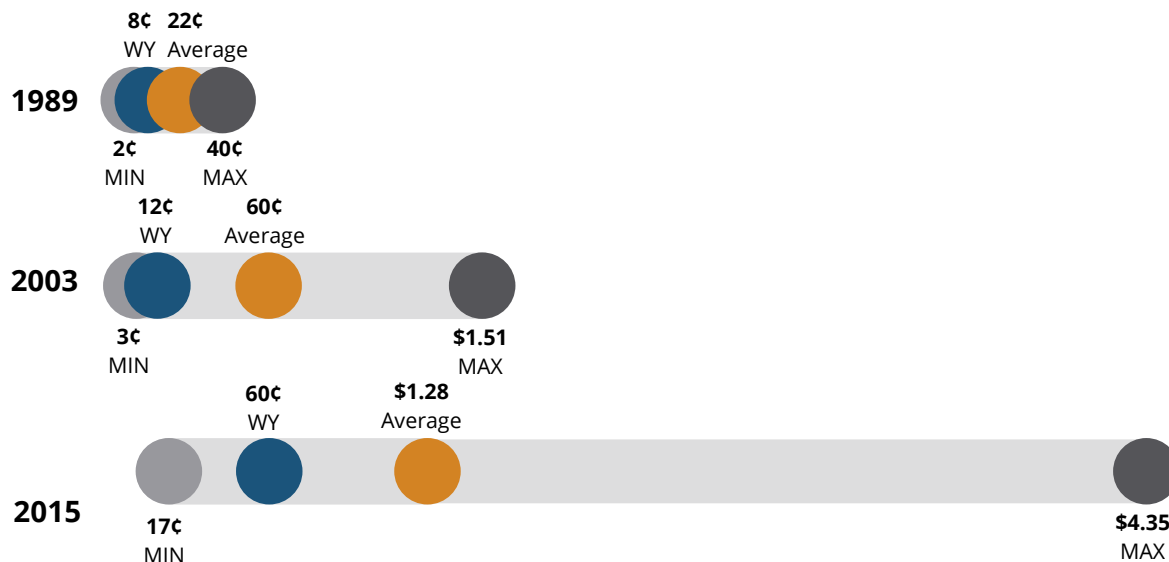
Source: CDC, 2016.

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Although Wyoming's excise tax rate has increased \$0.52 since 1989, Wyoming's rate has not kept pace with the national average (Figure 2; Orzechowski & Walker, 2015). Because Wyoming has increased its cigarette tax only once in the past 16 years, its tax rate has gone from close to the state average in 1989 to substantially lower in 2015.

## Figure 2: Wyoming's Excise Tax Increasingly Lower than National Average

*Minimum, Wyoming, national weighted average, and maximum state cigarette excise taxes since 1989*



Note: The average is a weighted average of all state taxes and does not include any federal excise taxes.

Sources: Orzechowski & Walker, 2015.

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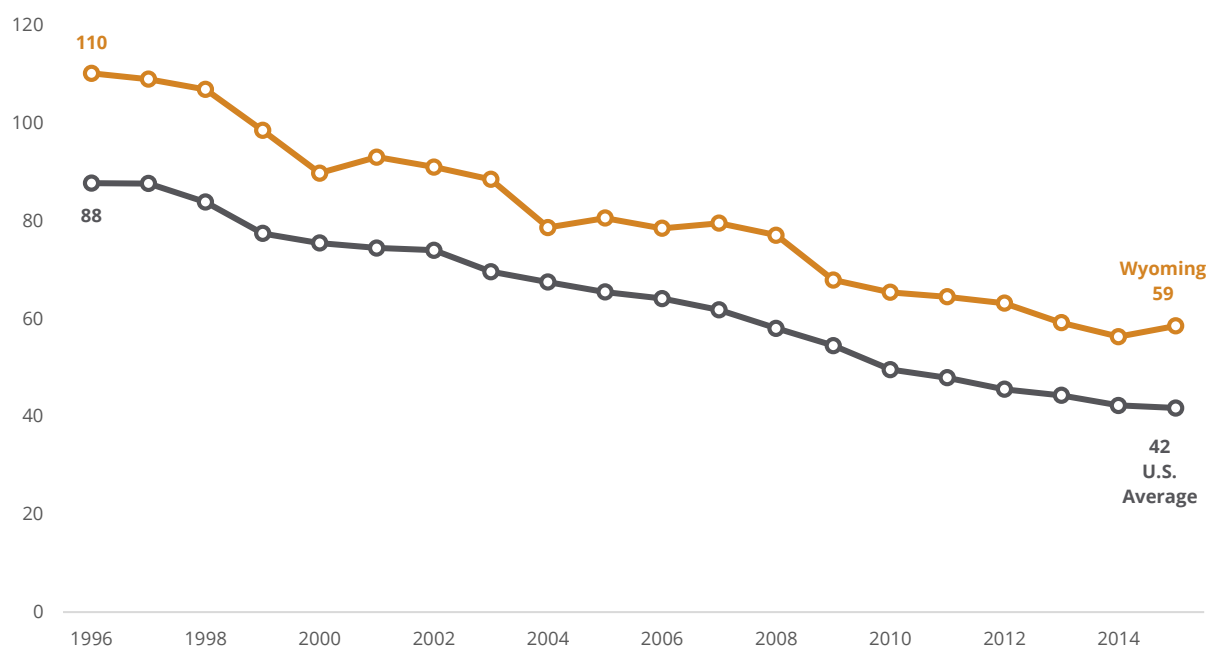
## Cigarette Consumption over Time

Since 1996, cigarette consumption in Wyoming and in the United States has declined. However, for most years since 1996, annual Wyoming per capita cigarette sales were about 20 packs higher than the national average (Figure 3; Orzechowski & Walker, 2015).

Researchers attribute these declines in consumption to increased cigarette prices and other factors, such as enactment of smokefree air laws and increased public awareness of the health risks associated with smoking (CDC, 2014a; Hahn et al., 2008; Keeler, Hu, Ong, & Sung, 2004; Lemstra, Neudorf, & Opondo, 2008).

### Figure 3: Cigarette Consumption in Wyoming and the U.S. Declines

*Wyoming and U.S. taxable cigarette sales per capita, 1996-2015*



Source: Orzechowski & Walker, 2015.

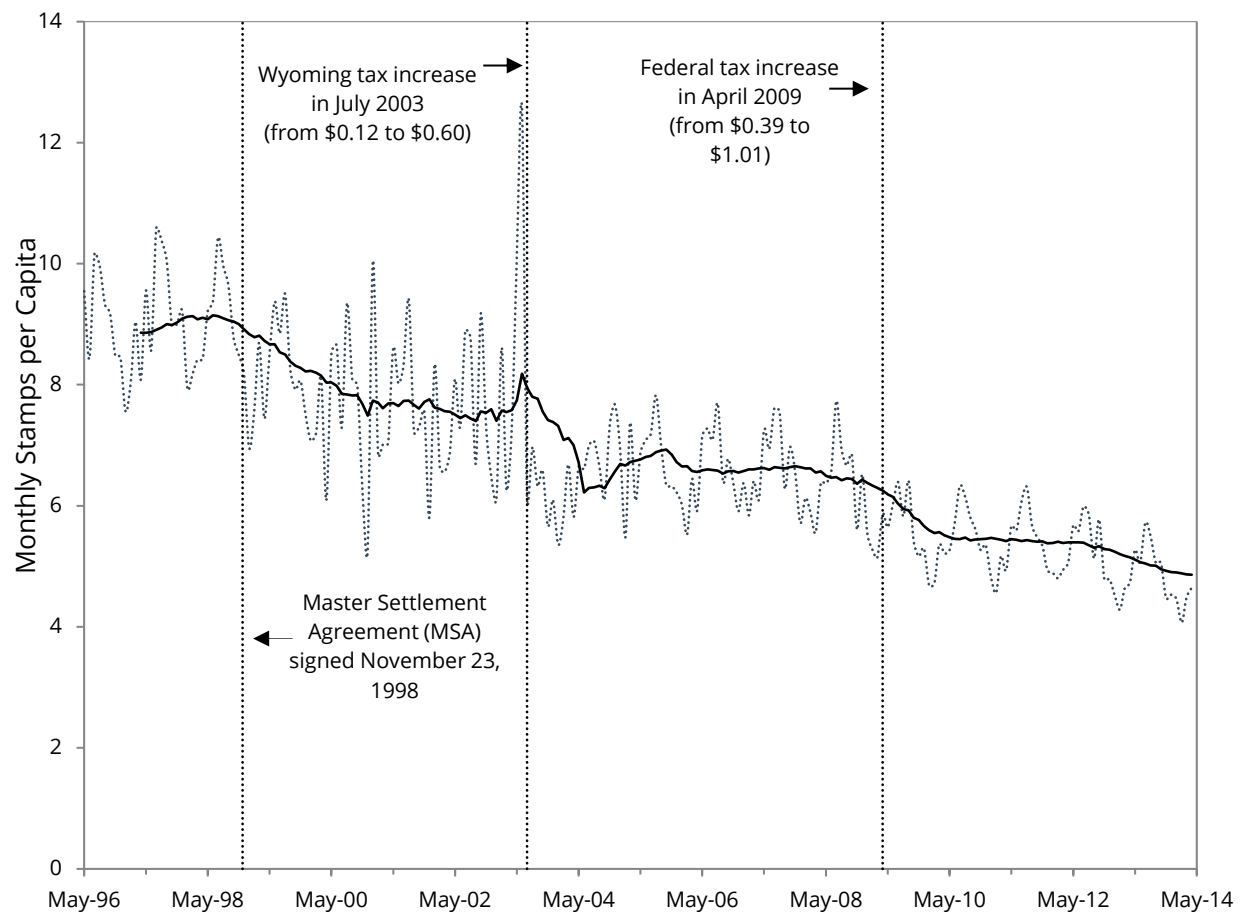
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### Effects of Tax Increases on Cigarette Sales

WYSAC (2014) analyzed the sales of Wyoming tax stamps (Figure 4). Lacking a direct measure of cigarette consumption, WYSAC used tax revenue generated from cigarette stamp sales as a proxy for cigarette consumption. Over the last two years of data (May 2012 to April 2014), monthly consumption in Wyoming was 4.9 stamps per capita compared to 7.6 stamps per capita for the two years prior to the 2003 tax increase. After controlling for other factors (e.g., federal tax increase, inflation, seasonality), WYSAC estimated that Wyoming's \$0.48 tax increase (equivalent to a 13% price increase) reduced monthly consumption by 6%. WYSAC's model predicts that an additional \$1.00 tax increase would decrease consumption by another 6%, or 0.31 packs per capita per month (WYSAC, 2014). Even with the decrease in consumption, WYSAC's model predicts an increase in revenue.

## Figure 4: Tax Increases have Reduced Cigarette Sales

*Monthly Wyoming per capita cigarette excise tax stamp sales, May 1996-April 2014*



Note: The solid black line is a 12-month rolling average.

Source: WYSAC, 2014.

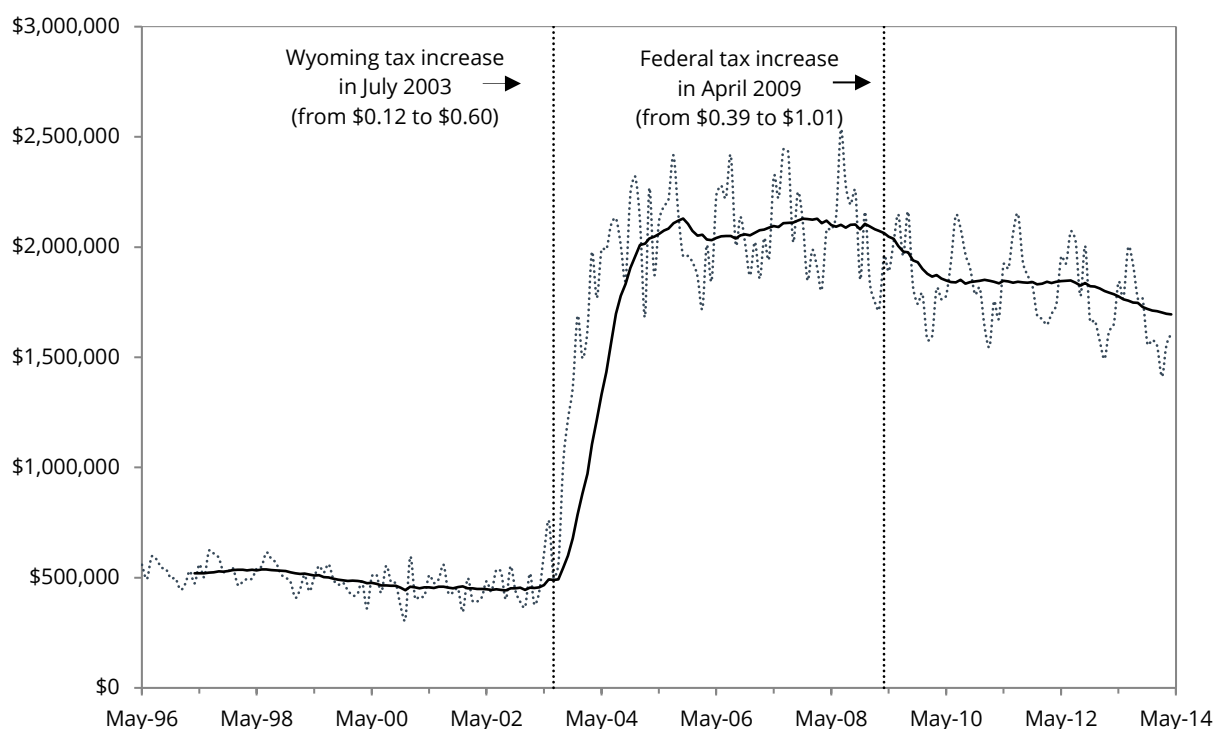
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## Effects of Tax Increases on Excise Tax Revenue<sup>1</sup>

Consistent with every state that has implemented a significant cigarette tax increase (Farrelly, Nimsch, & James, 2003), Wyoming experienced a significant increase in tax revenue when it raised its cigarette excise tax from \$0.12 to \$0.60 on July 1, 2003 (Figure 5). Wyoming's cigarette tax revenue increased from \$5.1 million in fiscal year 2003 (\$6.6 million when adjusted for inflation to 2014 dollars) to \$19.1 million in fiscal year 2014 (Wyoming Department of Revenue, [ca. 2014]). An additional \$1.00 tax increase could generate a total of \$48.315 million in annual tax revenue, as predicted by WYSAC's model (WYSAC, 2014).

**Figure 5: Higher Excise Tax Increases Revenue for Wyoming**

*Monthly Wyoming cigarette excise tax revenue, May 1996-April 2014*



Source: WYSAC 2014.

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<sup>1</sup> Although tobacco taxes are a source of revenue, smoking has substantial economic costs. WYSAC details costs of smoking in *WYSAC Issue Brief #06, Health and Economic Costs of Smoking*.

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Taxation and Revenue, Cigarette Taxes, Taxation Rate.