



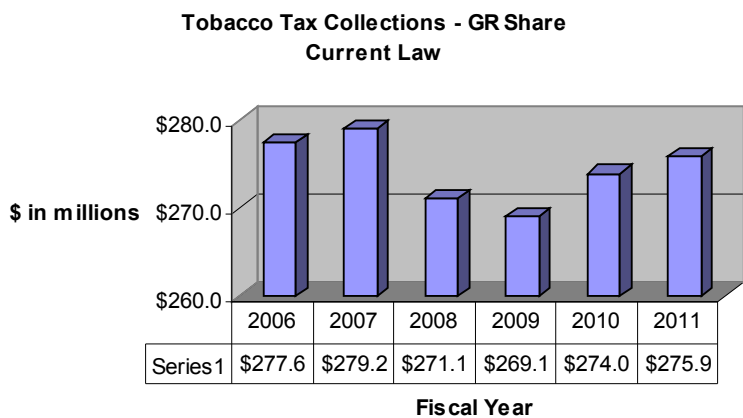
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A Closer Look at  
**Tobacco Taxes**  
 in  
**Florida's Fiscal Crisis: The Prescription**

**Recommendation:** Raise the cigarette tax by \$1.00 per pack and increase the tax on “other tobacco products” to 100% of the wholesale price. It is estimated that this change in tax rate will add an additional \$1,000.8 million to the state’s recurring general revenues.

**Background:** Florida imposes a \$.339 per pack tax on cigarettes, which is the 46<sup>th</sup> lowest in the country.<sup>1</sup> Nationally, all states levy a tax on cigarettes. The highest tax (as of October 2008) is levied by New York (\$2.75 per pack) and the lowest tax (\$0.07 per pack) is levied by South Carolina. Overall, the national average is \$1.19 per pack.<sup>2</sup> Other non-cigarette tobacco products are taxed at 25% of the wholesale price. Cigars are not taxed. In FY 2009 - 2010 total General Revenue tobacco tax collections are estimated at \$398.7 million with about 69% (\$274.0 million) allocated to the General Revenue fund.<sup>3</sup>

The following chart shows the actual and estimated General Revenue tobacco tax collections:



Source: Office of Economic and Demographic Research, General Revenue Estimating Conference work papers, the Florida Legislature, November 21, 2008.

<sup>1</sup> Campaign for Tobacco-Free Kids, October 15, 2008. [www.tobaccofreekids.org](http://www.tobaccofreekids.org)

<sup>2</sup> Ibid.

<sup>3</sup> The balance is allocated to the Public Medical Assistance Trust Fund (29.3%) for indigent health care.

**Calculation:**

1. Cigarette Tax Collections Current law estimate (11/21/08) <sup>4</sup>	\$398.7 million
2. Estimated sales @ \$0.339 per pack:	1,176,106,195 packs
3. <b>Increase</b> tax by \$1.00 per pack:	\$1,176.1 million
4. Other tobacco products @ 25% of wholesale Current law estimate (11/21/08) <sup>5</sup>	\$31.6 million
5. <b>Increase</b> tax by 75% of wholesale	\$94.8 million
6. Total increase:	\$1,270.9 million
7. Less elasticity effect (estimated @ 10%):	(\$270.1) million
8. Adjusted net General Revenue <b>increase</b> :	\$1,000.8 million

The “elasticity effect” deduction recognizes the potential reduction in revenues associated with fewer persons smoking and the probability that illegal tax evasion will occur.

**Consequences:** The \$1.00 increase in the cigarette tax would place Florida 20<sup>th</sup> in the country (as compared to its ranking of 46<sup>th</sup> in October 2008). The higher tax rate may encourage smokers to stop smoking, or dissuade teenagers from beginning smoking. A reduction in smoking will reduce healthcare costs, although tax revenues would decline.

**Compliance with Guiding Principles: Equity and Progressivity** are not improved as smoking rates are higher for lower income persons.<sup>6</sup> However, if higher tobacco taxes dissuade people from smoking, disposable income would be reallocated from cigarette purchases to other purposes. **Stability** would not be enhanced because of the declining revenues over time as smoking rates decrease.

**Note:** The recommendations in this report and the resulting revenues are derived from an independent analysis of information contained in the “2008 Florida Tax Handbook” and from the November 21, 2008 General Revenue Estimating Conference. As more current information becomes available, the recommendations may be updated to reflect this new information.

<sup>4</sup> Office of Economic and Demographic Research, General Revenue Estimating Conference work papers, the Florida Legislature, November 21, 2008.

<sup>5</sup> Ibid.

<sup>6</sup> “Among Americans, Smoking Decreases as Income Increases” The Gallup-Healthways Well-Being Index, Gallup, Inc. 2008.

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