

Updated Research Quantifies Relationship Between Cigarette Taxes and Smuggling

New York has highest smuggling rate; Michigan ranks 14th

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MIDLAND — An updated estimate of cigarette tax evasion and avoidance among U.S. states was released today by the Mackinac Center for Public Policy. The annual report estimates the percentage of cigarette consumption attributable to smuggling.



Cigarettes have an excise tax placed on them by individual states. States with higher excise taxes typically have higher rates of smuggling. When neighboring states have lower cigarette taxes, it makes it profitable for individuals and organized groups to smuggle cigarettes across state lines.

The smuggling rates are estimated using data from 2017, the most recent year available. New York continued to be the top in-bound smuggling state in the nation. Nearly 56% of all consumed cigarettes in New York were smuggled in from elsewhere. This is unsurprising, as the state's excise tax of \$4.35 per pack is tied for the highest in the nation.

One unsurprising jump in the rankings was California. The state passed a \$2.00 per pack tax hike in 2017, which contributed to the Golden State's smuggling rate increasing to 44.6%, making it the second highest in the nation. After California, the top-ranked states for smuggling are Washington (42.8%), New Mexico (40.8%) and Arizona (39.3%). Michigan ranks 14th in the nation, with 21% of all cigarettes consumed in the Great Lake State smuggled in.

The degree of cigarette tax evasion and avoidance in high-tax states is remarkable, said study co-author Michael LaFaive, senior director of the Mackinac Center's Morey Fiscal Policy Initiative. "Smokers are obviously not lining up like cows to be milked or sheep to be sheared."

The study also looks at states that export cigarettes. These states typically have a lower excise tax. The update found that New Hampshire continued to export the most cigarettes; for every 100 cigarettes consumed, an additional 65 are smuggled out of the state.

The study was co-authored by Todd Nesbit of Ball State University and adjunct scholar with the Mackinac Center, and Michael Lucci, vice president of state tax projects of the Washington D.C.-based Tax Foundation.

Source: <https://www.mackinac.org/updated-research-quantifies-relationship-between-cigarette-taxes-and-smuggling>