Sin Taxes: Issues and Considerations

Presentation to the Vermont Blue Ribbon Tax Structure Commission

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Background Information

Sin Taxes

• “Sin taxes” – taxes on culturally disfavored products and activities

• Sin taxes have historically been limited to alcohol, tobacco, and gambling

• Due to budget shortfalls, some states and cities have considered extending sin taxes to other products – particularly to sweetened drinks:
  – NY, MA and CA have all considered taxing sweetened drinks
  – Philadelphia is currently considering $0.02/oz. tax
  – Chicago has 3% soft drink tax
Background Information

**Cigarette Taxes**

- Federal excise tax of $1.01/pack.
  - Increased from $0.39/pack as of April 1, 2009

- Cigarette taxes range nationally from a low of $0.07/pack in SC to $3.46/pack in RI

- Vermont increased cigarette taxes $0.25 to $2.24/pack effective July 1, 2009

- 16 states, including VT, increased cigarette taxes in 2009 legislative session
Cigarette Taxes

Vermont

VT has increased cigarette taxes 5 times since 2002:

- 7/1/02 – $0.44 to $0.93 (revenue $24,574 → $43,393)*
- 7/1/03 – $0.93 to $1.19 (revenue $43,393 → $49,838)
- 7/1/06 – $1.19 to $1.79 (revenue $46,204 → $60,064)
- 7/1/08 – $1.79 to $1.99 (revenue $56,041 → $60,398)
- 7/1/09 – $1.99 to $2.24

*revenue shown in thousands
## Cigarette Taxes

### Vermont

Net Cigarette Tax Collections  
(in Thousands of Dollars)  
(During Fiscal Years Ending June 30)

<table>
<thead>
<tr>
<th>Year</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>24,574</td>
<td>24,520</td>
<td>43,393</td>
<td>49,838</td>
<td>46,084</td>
<td>46,204</td>
<td>60,064</td>
<td>56,041</td>
<td>60,398</td>
</tr>
</tbody>
</table>
Cigarette Taxes

Bordering States

• VT cigarette tax rate - $2.24/pack
• Rates in bordering states (as of 1/1/10):
  ➢ New Hampshire - $1.78/pack
    ➢ increased $0.45/pack in 2009
  ➢ New York – $2.75/pack
    ➢ increased $1.25/pack as of 6/3/2008; NYC has additional $1.50 tax/pack
  ➢ Massachusetts - $2.51/pack
    ➢ increased $1.00/pack in 2008
## Average Retail Price/Pack
(including generic brands)*

<table>
<thead>
<tr>
<th>State</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Vermont</td>
<td>$5.10</td>
<td>$5.60</td>
<td>$6.66</td>
</tr>
<tr>
<td>New Hampshire</td>
<td>$4.24</td>
<td>$4.42</td>
<td>$5.88</td>
</tr>
<tr>
<td>Massachusetts</td>
<td>$5.13</td>
<td>$6.37</td>
<td>$7.26</td>
</tr>
<tr>
<td>New York**</td>
<td>$5.47</td>
<td>$6.73</td>
<td>$7.61</td>
</tr>
</tbody>
</table>

* includes federal and state excise taxes, but not state sales tax
** includes $1.50/pack NYC tax
### Tax Paid Per Capita Sales in Number of Packs

<table>
<thead>
<tr>
<th>State</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Vermont</td>
<td>54.5</td>
<td>51.6</td>
<td>48.9</td>
</tr>
<tr>
<td>New Hampshire</td>
<td>131.6</td>
<td>113.5</td>
<td>116.6</td>
</tr>
<tr>
<td>Massachusetts</td>
<td>43.0</td>
<td>43.1</td>
<td>34.6</td>
</tr>
<tr>
<td>New York</td>
<td>32.3</td>
<td>31.5</td>
<td>24.8</td>
</tr>
</tbody>
</table>
MSA Payments to Vermont (with adjustments)

- 2007 - $25.0 million
- 2008 - $39.9 million
- 2009 - $42.9 million
Use of Tobacco Funds

• Between cigarette taxes and MSA payments, Vermont received approximately $102 million in cigarette-related payments in 2009.
• 90+% of this was used for health care purposes.
• Approximately 5% was used for tobacco control programs.
Arguments For Sin Taxes

- **Raise revenue**
  - Relatively inelastic demand

- **Improve health**
  - Particularly among the most vulnerable

- **Fairly allocate negative externalities**

- **Politically acceptable**
Arguments Against Sin Taxes

- Fail to achieve expected revenue goals
  - may in some instances reduce revenues – New Jersey
- Diminishing source of revenue
- Regressive
  - majority of smokers come from families with incomes less than $35,000
Arguments Against Sin Taxes

- **Discriminatory**
  - target a small and politically unpopular group

- **Government intrusion into personal decisions**

- **Ethical issues**
  - alignment of financial interests between the state and the seller of harmful products