



NEW FEDERAL TOBACCO PRODUCT TAX RATE INCREASES (effective March 31, 2009)

Most of the focus on the new federal tobacco tax rate increases from the SCHIP bill has been on the 61.66 cent per pack increase to the cigarette tax, which goes into effect March 31, 2009. But there were significant increases to the federal tax rates on some other tobacco products (OTPs) that will go into effect on that same date, as well. That includes some major increases to the tax rates on “small cigars” (i.e., cigarettes with some tobacco in their wrapper paper) and on roll-your-own (RYO) tobacco; and some more modest increases to the tax rates on all regular (non-cigarette) cigars. By increasing the prices of these tobacco products, these federal tax rate increases will significantly reduce smoking and its many related harms and costs.¹

Even with the new increases, however, the federal government will continue to grossly under-tax smokeless tobacco compared to cigarettes. At the same time, many states continue to grossly under-tax other tobacco products compared to cigarettes, and many states still have cigarette tax rates well below the nationwide state average of \$1.20 per pack.

| | <u>Pre-SCHIP</u> | <u>Post-SCHIP</u> | <u>Formal New Rate</u> |
|-----------------------------------|----------------------|-------------------------|-----------------------------|
| Cigarettes | 39¢ per pack | 100.66¢ per pack | \$50.33 per thousand |
| Small Cigars (≈cigarettes) | 3.7¢ per pack | 100.66¢ per pack | \$50.33 per thousand |
| RYO Tobacco | 4.5¢ per pack | 100.66¢ per pack | \$24.78 per pound |

Pack = 20 sticks or units. A cigarette-worth of RYO tobacco taken to be 0.0325 ounces.

| | <u>Pre-SCHIP</u> | | <u>Post-SCHIP</u> | |
|-----------------------------|---------------------------------------|-------|----------------------------------------|--------|
| Regular Cigars | 20.719% but 4.9¢ per cigar cap | | 52.75% but 40.26¢ per cigar cap | |
| – 25¢ manufacturer’s price | 4.9¢ per cigar | 19.6% | 13.2¢ per cigar | 52.75% |
| – 50¢ manufacturer’s price | 4.9¢ per cigar | 9.8% | 26.4¢ per cigar | 26.4% |
| – \$1 manufacturer’s price | 4.9¢ per cigar | 4.9% | 40.26¢ per cigar | 13.2% |
| – \$5 manufacturer’s price | 4.9¢ per cigar | 1.0% | 40.26¢ per cigar | 2.6% |
| – \$10 manufacturer’s price | 4.9¢ per cigar | 0.5% | 40.26¢ per cigar | 1.3% |

Percentage tax on regular cigars is based on Manufacturer’s Price, which is the price charged at the factory when manufacturers sell to wholesalers and distributors (sometimes called wholesale price in state law).

| | <u>Pre-SCHIP</u> | <u>Post-SCHIP</u> | <u>Formal New Rate</u> |
|--------------------------------|---------------------|----------------------|-------------------------|
| Smokeless (Moist Snuff) | 4.4¢ per can | 11.3¢ per can | \$1.51 per pound |

A standard can of smokeless moist snuff (Skoal, Bandit, Copenhagen, Grizzly) is 1.2 ounces.

There are also additional new higher federal excise tax rates on pipe tobacco (17.7¢ per oz.); on smokeless chewing tobacco (3.1¢ per oz.); and on cigarette rolling papers (1.26¢ per pack); and cigarette tubes (2.5¢ per pack) used for RYO cigarettes. But these increases are not substantial; and these products make up only a small fraction of total tobacco product sales.

Making all of the federal tobacco product tax rates equal or parallel to the new \$100.66 cents per pack tax on cigarettes would both reduce tobacco use further and bring in substantial amounts of additional new annual federal tobacco tax revenue.

Campaign for Tobacco-Free Kids, February 12, 2009

¹ See, e.g., Campaign for Tobacco-Free Kids factsheet, *Increasing the Federal Cigarette Tax Reduces Smoking (and the Cigarette Companies Know It)*, and the other CFTFK factsheets available at <http://tobaccofreekids.org/research/factsheets/index.php?CategoryID=11>.