

## Tobacco

## 1H23 US state nicotine legislative recap

## Government Regulations

## 1H23 US nicotine state legislative review

Per the Tobacco Merchants Association (TMA) there were 50 bills seeking cigarette, vapor and/or other nicotine excise tax hikes in 17 states, with 4 approvals in 4 states in the first half of 2023. Enacted legislation that increased or modified cigarette and vapor excise tax rates included Hawaii (vapor tax implemented), Louisiana (vapor tax raised), Nebraska (vapor implemented), and New York (cigarette tax raised). To date, 32 states (+Washington DC) have imposed vapor taxes and all US states (+DC) have cigarette excise taxes. We look for all states to enact vapor taxes over time. As of July 7, 9 states (+DC) are still in legislative session, but some of the 41 remaining states could reopen for an additional session later in the year.

## NY to boost cigarette taxes after little national activity

Since 2Q21, the average national state cigarette excise tax was \$1.89 per pack, indicating a relatively benign period of tax growth. Over the last 5-year, 10-year and 20-year periods, state excise taxes have grown at compound annual growth rates of 1.1%, 3.3% and 5.7% respectively. Federal excise taxes on cigarettes have remained at \$1.01 per pack since April 2009. In the US, cigarettes are considered relatively affordable.

## New York cigarette excise tax rises by \$1 as of September

As of September 1, New York state's upcoming fiscal year budget will boost its state excise tax by \$1/pack from \$4.35 to \$5.35, reclaiming the top US cigarette tax spot from Washington DC (currently \$5/pack). This 23% tax increase will be the first boost in NY state cigarette taxes since 2011. New York states represents ~2% of national volumes. The tax increase will lift the national state average by \$0.02/pack to \$1.91, indicating a 1% increase on a national level. New York City imposes additional cigarette excise taxes of \$1.50 per pack.

## Tax boost will likely drive NY illicit trade even higher

Latest data from the Mackinac Center suggests that as of 2020 over 53% of New York cigarettes were illicit, the highest rate in the nation. This indicates that many more cigarettes are consumed than legally sold, with New Yorkers buying cigarettes from illegal sellers, who bring cigarettes in from lower tax states (grey market) and/or shop in nearby states with lower excise tax rates (tax avoidance). For example, New Jersey's cigarette excise tax rate is \$2.70/per pack; Pennsylvania's is \$2.60, while Virginia's is just 60c/pack. With cigarettes being a light and easily transportable product, the Mackinac Center estimates that the state's smuggling could surpass 60% post September. History has shown that higher taxes do little to dissuade smokers from consuming cigarettes, but may change where they buy cigarettes and lead to higher crime. We expect only a modest impact to national volumes from this tax hike given the fluid nature of this market.

11 July 2023

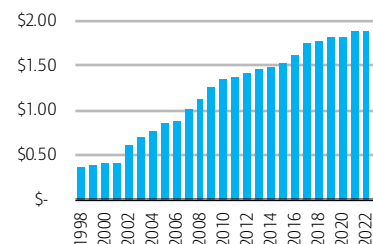
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## Exhibit 1: Average national state excise taxes (per pack of 20 sticks)

In September, the avg state tax will rise by 2c/pack



Source: TMA, BofA Global Research

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# State cigarette excise taxes

## Exhibit 2: State cigarettes taxes per pack (20 sticks), in cents

New York state once again becomes the highest state tax at \$5.35.

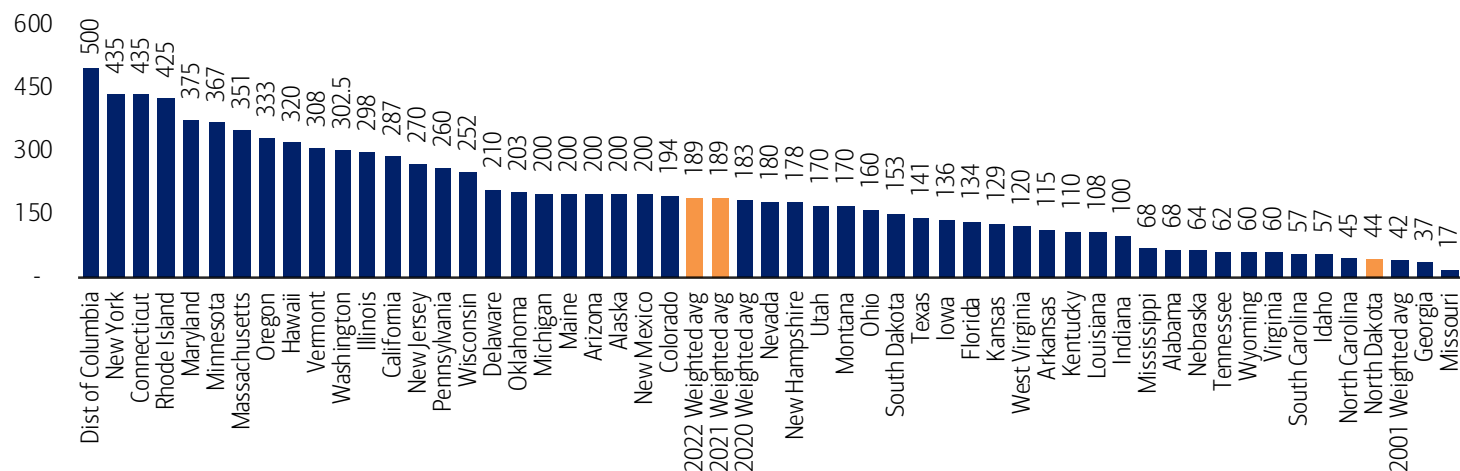
	% of 2022 vols	Jan-02	Jan-12	Jan-17	Jan-18	Jan-19	Jan-20	Jan 21	Jan 22	Jan 23	Sep23e
Alabama	2.3%	16.5	42.5	67.5	67.5	67.5	67.5	67.5	67.5	67.5	67.5
Alaska	0.2%	100.0	200.0	200.0	200.0	200.0	200.0	200.0	200.0	200.0	200.0
Arizona	1.5%	58.0	200.0	200.0	200.0	200.0	200.0	200.0	200.0	200.0	200.0
Arkansas	1.3%	34.5	115.0	115.0	115.0	115.0	115.0	115.0	115.0	115.0	115.0
California	5.5%	87.0	87.0	87.0	287.0	287.0	287.0	287.0	287.0	287.0	287.0
Colorado	1.4%	20.0	84.0	84.0	84.0	84.0	84.0	194.0	194.0	194.0	194.0
Connecticut	0.7%	50.0	340.0	390.0	435.0	435.0	435.0	435.0	435.0	435.0	435.0
Delaware	0.5%	24.0	160.0	160.0	210.0	210.0	210.0	210.0	210.0	210.0	210.0
District of Columbia	0.0%	65.0	286.0	292.0	294.0	450.0	450.0	500.0	501.0	502.0	502.0
Florida	7.1%	33.9	133.9	133.9	133.9	133.9	133.9	133.9	133.9	133.9	133.9
Georgia	4.2%	12.0	37.0	37.0	37.0	37.0	37.0	37.0	37.0	37.0	37.0
Hawaii	0.3%	100.0	320.0	320.0	320.0	320.0	320.0	320.0	320.0	320.0	320.0
Idaho	0.6%	28.0	57.0	57.0	57.0	57.0	57.0	57.0	57.0	57.0	57.0
Illinois	2.7%	58.0	98.0	198.0	198.0	198.0	298.0	298.0	298.0	298.0	298.0
Indiana	3.5%	15.5	99.5	99.5	99.5	99.5	99.5	99.5	99.5	99.5	99.5
Iowa	1.2%	36.0	136.0	136.0	136.0	136.0	136.0	136.0	136.0	136.0	136.0
Kansas	0.9%	24.0	79.0	129.0	129.0	129.0	129.0	129.0	129.0	129.0	129.0
Kentucky	3.0%	3.0	60.0	60.0	60.0	110.0	110.0	110.0	110.0	110.0	110.0
Louisiana	2.1%	24.0	36.0	108.0	108.0	108.0	108.0	108.0	108.0	108.0	108.0
Maine	0.6%	100.0	200.0	200.0	200.0	200.0	200.0	200.0	200.0	200.0	200.0
Maryland	1.1%	66.0	200.0	200.0	200.0	200.0	200.0	375.0	375.0	375.0	375.0
Massachusetts	1.0%	76.0	251.0	351.0	351.0	351.0	351.0	351.0	351.0	351.0	351.0
Michigan	3.7%	75.0	200.0	200.0	200.0	200.0	200.0	200.0	200.0	200.0	200.0
Minnesota	1.2%	48.0	123.0	359.0	361.4	361.4	361.4	367.3	370.3	373.2	373.2
Mississippi	1.5%	18.0	68.0	68.0	68.0	68.0	68.0	68.0	68.0	68.0	68.0
Missouri	4.1%	17.0	17.0	17.0	17.0	17.0	17.0	17.0	17.0	17.0	17.0
Montana	0.4%	18.0	170.0	170.0	170.0	170.0	170.0	170.0	170.0	170.0	170.0
Nebraska	0.7%	34.0	64.0	64.0	64.0	64.0	64.0	64.0	64.0	64.0	64.0
Nevada	0.9%	35.0	80.0	180.0	180.0	180.0	180.0	180.0	180.0	180.0	180.0
New Hampshire	1.2%	52.0	168.0	178.0	178.0	178.0	178.0	178.0	178.0	178.0	178.0
New Jersey	1.9%	80.0	270.0	270.0	270.0	270.0	270.0	270.0	270.0	270.0	270.0
New Mexico	0.4%	21.0	166.0	166.0	166.0	166.0	200.0	200.0	200.0	200.0	200.0
New York	2.0%	111.0	435.0	435.0	435.0	435.0	435.0	435.0	435.0	435.0	<b>535.0</b>
North Carolina	5.2%	5.0	45.0	45.0	45.0	45.0	45.0	45.0	45.0	45.0	45.0
North Dakota	0.4%	44.0	44.0	44.0	44.0	44.0	44.0	44.0	44.0	44.0	44.0
Ohio	4.9%	24.0	125.0	160.0	160.0	160.0	160.0	160.0	160.0	160.0	160.0
Oklahoma	1.8%	23.0	103.0	103.0	103.0	203.0	203.0	203.0	203.0	203.0	203.0
Oregon	1.1%	68.0	118.0	132.0	133.0	133.0	133.0	333.0	333.0	333.0	333.0
Pennsylvania	4.1%	31.0	160.0	260.0	260.0	260.0	260.0	260.0	260.0	260.0	260.0
Rhode Island	0.3%	100.0	346.0	375.0	425.0	425.0	425.0	425.0	425.0	425.0	425.0
South Carolina	2.3%	7.0	57.0	57.0	57.0	57.0	57.0	57.0	57.0	57.0	57.0
South Dakota	0.3%	33.0	153.0	153.0	153.0	153.0	153.0	153.0	153.0	153.0	153.0
Tennessee	3.4%	13.0	62.0	62.0	62.0	62.0	62.0	62.0	62.0	62.0	62.0
Texas	7.7%	41.0	141.0	141.0	141.0	141.0	141.0	141.0	141.0	141.0	141.0
Utah	0.5%	51.5	170.0	170.0	170.0	170.0	170.0	170.0	170.0	170.0	170.0
Vermont	0.2%	44.0	262.0	308.0	308.0	308.0	308.0	308.0	308.0	308.0	308.0
Virginia	3.7%	2.5	30.0	30.0	30.0	30.0	60.0	60.0	60.0	60.0	60.0
Washington	1.0%	82.5	302.5	302.5	302.5	302.5	302.5	302.5	302.5	302.5	302.5
West Virginia	1.3%	17.0	55.0	120.0	120.0	120.0	120.0	120.0	120.0	120.0	120.0
Wisconsin	1.9%	77.0	252.0	252.0	252.0	252.0	252.0	252.0	252.0	252.0	252.0
Wyoming	0.3%	12.0	60.0	60.0	60.0	60.0	60.0	60.0	60.0	60.0	60.0
<b>Simple average</b>		<b>43.4</b>	<b>146.4</b>	<b>166.8</b>	<b>173.7</b>	<b>179.7</b>	<b>182.9</b>	<b>193.5</b>	<b>193.6</b>	<b>193.6</b>	<b>195.6</b>
<b>Weighted Year End Average (cents)</b>		<b>62.0</b>	<b>137.0</b>	<b>161.0</b>	<b>175.0</b>	<b>178.6</b>	<b>183.0</b>	<b>183.0</b>	<b>189.0</b>	<b>189.0</b>	<b>191.0</b>

Source: TMA, Orzechowski & Walker, BofA Global Research

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**Exhibit 3: Current per pack cigarette excise taxes sorted (cents)**

These are statewide taxes but localities (such as NYC) are at times allowed to impose excise taxes as well



Source: TMA, Orzechowski & Walker, BofA Global Research

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Underperform	N/A	≥ 20%

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