



HOW TO MAKE STATE CIGAR TAX RATES FAIR AND EFFECTIVE

Cigar smoking is deadly and addictive and, just like cigarette smoking, produces toxic secondhand smoke.¹ While many mistakenly believe that cigars are not harmful, the U.S. Food and Drug Administration (FDA) stated that “Cigars are associated with significant risk and provide no public health benefit.”² Today, cigars, particularly smaller ones like cigarillos, are marketed in a wide variety of flavors and at cheap price points, making these products attractive and affordable to kids. For instance, the price of cigarillos, the most commonly sold cigar product, declined between 2017 and 2020.³ Although cigarette smoking has declined, total consumption of cigars in the United States has increased dramatically since 1993, reversing a decline in consumption that had persisted for most of the twentieth century.⁴

Further exacerbating the problem, many states tax cigars at much lower rates than they tax cigarettes. In fact, Florida does not tax cigars at all, and New Hampshire and Pennsylvania do not tax certain cigars. By undertaxing cigars, states lose out on revenue. But more importantly, failing to tax cigars adequately creates a public health problem because it keeps cigar prices low, thereby increasing the likelihood that kids try cigars and become addicted, and reducing the number of adult smokers who quit.

Price increases are one of the most effective ways to reduce tobacco use by discouraging youth from starting and encouraging current users to quit. This applies to cigars as well: increasing the price of cigars can reduce cigar consumption.⁵ Furthermore, lower taxes on cigars can encourage product switching; when faced with cigarette tax and price increases, cigarette smokers who might otherwise quit or cutback may turn to undertaxed, less-expensive cigars, instead. To make matters worse, some cigarettes slip through loopholes in state tax law definitions to qualify as “cigars” and face lower tax rates.

Improving State Cigar Tax Rates

There are several key steps states can take to make their cigar tax rates more equitable, better protect kids from becoming addicted smokers, prevent tobacco product switching instead of quitting, and increase state revenues.

- **Match the state’s cigar tax rate – for both large and small cigars – to the cigarette tax rate.** For example, a \$2.00 per pack tax on cigarettes roughly equals a 33% of wholesale price cigar tax.
- **Raise the cigar tax rate whenever any other tobacco product tax rates are increased.**
- **Set cigar tax rates as a percentage of their price.** Unlike cigarettes that always come in packs of 20 sticks, cigars come in many different sizes and weights and are sold in many different ways, such as singles, 3-packs, or 20-packs. That makes it difficult to implement an equitable cigar tax based on the package size, or per-cigar, or by weight. But a tax set as a certain percentage of the wholesale price of a cigar or package of cigars ensures that all cigars will have to pay the same flat-tax rate.
- **Eliminate any caps on cigar tax rates.** A cap, or maximum, on state cigar taxes (e.g., no more than \$1.00 per cigar) is just a subsidy for those smokers who buy and smoke the most expensive brands. Even worse, among many of the states with tax caps on cigars, the cap is low, which means that many of the flavored, cheap cigars that are popular with youth are also undertaxed. Eliminating an existing cap will keep prices higher, out of the range of kids, and can generate new revenue for states. At the very least, any existing caps on cigar taxes should be increased and indexed to inflation. To hinder below-market sales and predatory pricing, a minimum tax (e.g., 10¢ per cigar) could also be added.
- **Make sure no cigarettes can qualify as “cigars” under state law,** thereby being subject to a lower cigar tax rate and escaping any other restrictions or requirements that apply to cigarettes but not cigars. To reach all cigarettes, all state definitions of “cigarette” should include “any roll of tobacco, however wrapped, that weighs no more than four and a half pounds per thousand, unless it is wrapped in whole tobacco leaf and does not have a filter.”

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- ¹ National Cancer Institute (NCI), *Cigars: Health Effects and Trends*, Smoking and Tobacco Control Monograph No. 9, 1998, <http://cancercontrol.cancer.gov/tcrb/monographs/9/index.html>. Baker, F, et al., "Health Risks Associated with Cigar Smoking," *Journal of the American Medical Association* 284(6):735-740, 2000. For more on cigar smoking harms and trends, see the Campaign's factsheet, *The Rise of Cigars and Cigar-Smoking Harms*, <http://www.tobaccofreekids.org/research/factsheets/pdf/0333.pdf>.
- ² U.S. Food and Drug Administration (FDA), Modifications to Compliance Policy for Certain Deemed Tobacco Products, March 2019, <https://www.fda.gov/media/121384/download>.
- ³ Wang, X, et al., "Trends in Cigar Sales and Prices, by Product and Flavor Type—the United States, 2016-2020," *Nicotine and Tobacco Research* 24:606-611, 2022.
- ⁴ U.S. Alcohol and Tobacco Tax and Trade Bureau (TTB), Tobacco Statistics. National Cancer Institute (NCI), *Cigars: Health Effects and Trends. Smoking and Tobacco Control Monograph No. 9*, 1998, http://cancercontrol.cancer.gov/Brp/tcrb/monographs/9/m9_complete.pdf. Economic Research Service, U.S. Department of Agriculture (USDA).
- ⁵ Jawad, M, "Price elasticity of demand of non-cigarette tobacco products-a systematic review and meta-analysis," *Tobacco Control* 27:689-695, 2018.