



## EQUALIZING NEW JERSEY'S TOBACCO TAX RATES

Making all of New Jersey's tax rates on other tobacco products more equal to the state cigarette tax would not only promote tax fairness but also improve public health and increase state revenues.

### **Proposed Equalized Tobacco Tax Rates**

The following table shows the inequities in the state's current tobacco product tax rates compared to a proposed schedule of tax rates that would make the state's tax rates on other tobacco products parallel the state's existing cigarette tax. Put simply, the new tax rate on each tobacco product other than cigarettes would be the higher of 90% of the wholesale price or an amount equal to the state's cigarette tax. These new rates would promote tax equity between the many different types of tobacco products – based on a per-price, per-pack, or per-dose basis. The new tobacco tax structure would also ensure that individual brands could no longer largely evade paying state taxes when sold through predatory pricing or other below-market pricing strategies.

	<b>Current Rate</b>	<b>Current Rate Per Package</b>	<b>Current Rate Per Dose/Unit</b>
<i>Cigarettes</i>	\$2.70/pack	\$2.70	13.5¢
<i>Cigars</i>	30% of price	Varies	Varies
<i>Moist Snuff Tobacco</i>	\$0.75/ounce	\$0.90	Varies
<i>Other Tobacco Products</i>	30% of price	Varies	Varies

The state's percentage-of-price tax applies to "wholesale price" (price charged by manufacturer to wholesaler, not including state taxes), which is considerably lower than retail prices. The references to price in the table are to wholesale price, and the references to pack/can refer to the package for each type of tobacco product that parallels a cigarette pack (e.g., a 1.2 ounce tin of regular moist snuff; a package of 5 cigarillos; a package of 20 snus; or a single large, premium cigar).

### **Estimated Revenue Impact**

The changes proposed above would increase state tobacco tax revenues by at least \$22 million in the first year, despite prompting significant tobacco use declines, especially among kids.

With these changes, overall consumption would decline by 20 percent, while youth smokeless tobacco and cigar use would decline by 38 percent. Unfortunately, adequate data are not available to provide estimates of all the related public health benefits and healthcare and other cost savings that these tobacco use declines would secure for the state.

### **Why These Changes Are Needed**

The current state cigarette tax of \$2.70 per pack is much higher than its 30% of wholesale price tax on all other tobacco products (except moist snuff smokeless) or its 75¢ per ounce tax on moist snuff. The state's current cigarette tax, for example, roughly parallels 90 percent of the average wholesale price of a pack. Similarly, the state's 75¢ per ounce tax on moist snuff equals only 90¢ per standard 1.2 ounce can of moist snuff, which is much less than the New Jersey tax of 270¢ per standard pack of cigarettes.

Moreover, because there is no minimum tax for tobacco product subject to the 30% tax rate, those sold with predatory or other below-market prices pay substantially less on a per package or per-dose basis than other tobacco products in the same category. Similarly, the state's 75¢ per ounce tax on moist snuff imposes only a tiny tax on the new generation of super-low-weight

moist snuff (e.g., Camel and Marlboro snus), which weight as little as one-tenth as much as conventional moist snuff tobacco products (Skoal, Copenhagen, Grizzly). The proposed tax rate changes would eliminate these inequities as a simple matter of tax fairness and to address the other major problems caused by unequal rates.

Because of its unequal tobacco product tax rates (with no minimum tax), the state loses substantial amounts of revenue when state cigarette smokers completely or partially switch to cigars, roll-your-own tobacco, or smokeless tobacco products. With such sharply unequal tax rates, these kinds of shifts from higher to lower taxed tobacco products are significantly reducing New Jersey tobacco tax revenues. But with parallel tax rates on all tobacco products, the state would not lose any money when cigarette smokers switch to other tobacco products, or when any other switching among tobacco products occurs.

By enabling smokers faced with high cigarette taxes and product prices simply to switch to a lower taxed tobacco product to save money, the state's current tax system also reduces the number who would otherwise reduce their tobacco use or quit entirely. In this way, the state loses enormous public health benefits and related cost savings.

Finally, the state's tax rates on tobacco products other than cigarettes are simply way too low, whether compared to the state's cigarette tax rate or to the tobacco product tax rates of similar states. Raising the tax rates as proposed here, like any significant increase to tobacco tax rates, will both reduce overall use of those tobacco products and bring the state significant amounts of new revenue it would not get absent any changes.

**Proposed New Tax Rates for Major Categories of Tobacco Products**

All tobacco products other than cigarettes would be taxed at either 90% of their wholesale price or at an amount equal to the state's current tax on a cigarettes, as applied to the tobacco product based either on its standard package size or on a per-dose basis (as shown in the table below). To block extremely high tax rates on premium cigars (which, unlike any other tobacco product, can sell for hundreds of dollars per unit), the proposed tax equalization rate on cigars would be 90% of wholesale price with a maximum tax per cigar equal to the state tax on a pack of cigarettes.

<b>Type of Tobacco Product</b>	<b>Tax Equity Tax Rate</b>
Cigarettes	\$2.70 per 20 or 13.5¢ each
Premium cigars	90% of wholesale price with a maximum tax of \$2.70 per cigar
Cigarillos, blunts	90% of wholesale price or \$2.70 per pack of five
"Small-cigar" cigarettes	taxed as cigarettes
Conventional moist snuff	90% of wholesale price or \$2.70 per 1.2 ounce can
Snus, lozenges, other smokeless in single-dose units	90% of wholesale price or 13.5¢ per unit (\$2.70 for 20)
Roll-your-own tobacco	90% of wholesale price or \$2.70 per 0.65 ounces

Cigarillos and blunts and other manufactured non-premium cigars typically are sold in packs of five, which is taken to equal a pack of cigarettes.

Cigarettes that currently can qualify as "cigars" because of loopholes in state definitions would be defined and taxed as cigarettes under the proposal.

Conventional moist snuff (Skoal, Copenhagen, Grizzly) are typically sold in a 1.2 ounce tin or can, which is taken to equal a pack of cigarettes.

Moist snuff snus, orbs, pouches, lozenges, tablets, sticks and the like are all sold in discrete single-dose units and each such unit is taken to equal a single cigarette for tax purposes.

It takes approximately 0.65 ounces of roll-your-own tobacco to make 20 RYO cigarettes.