



# Analytics

Published by the Caesar Rodney Institute

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## No Longer Blowing Smoke

In August of 2009 Delaware raised its cigarette tax from \$1.15 to \$1.60 per pack of 20 smokes. The consequences were predictable.

State revenue from the cigarette tax fell between 2009 and 2012. In part this was due to the higher price discouraging smoking. In addition, however, Delaware's position in the region as a source of cigarettes for smugglers fell.

According to recent data from the Mackinac Center for Public Policy, 62% of cigarettes sold in Delaware in 2006 was brought to other states. With the higher taxes, only 23% of cigarettes were smuggled out of state in 2011, meaning fewer people are coming from out of state to buy cigarettes.

Meanwhile in New York, the state with the highest cigarette tax of \$4.35, almost 61% of the cigarettes consumed in 2011 were smuggled in. Where were they brought from? Perhaps from Virginia where the tax rate is \$0.30 per pack. Certainly from neighboring New Jersey with a tax of \$2.70 per pack. Pennsylvania adds \$1.60 per pack, while Maryland adds \$2.

What is the lesson here? First, when you raise the tax rate on anything, you will get less of it. For example, when you raise the gross receipts tax on commercial businesses in Delaware by 34% you get fewer commercial businesses and fewer jobs. These taxes need to be allowed to sunset so Delaware's business owners are able to keep the money they earn to reinvest in their businesses. Additional money handed over to the government will only reduce the amount the businesses have for their own needs.

State paternalism, no matter how well intended (e.g., reducing lung cancer from smoking), always runs head long into the creativity of individual citizens. Did we mention, by the way, that cigarette counterfeiting is on the rise?

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