



Issues Related to Cigarettes and Little Cigars

Revenue Laws Study Committee

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Research & Fiscal Research Divisions



Overview

- History and current taxation.
- Cigarette tax stamps.
- Other tobacco products and little cigars.



Current Taxation

- Cigarettes are taxed per pack at 45¢ per pack.
 - 2009 – 45¢.
 - 2006 – 35¢.
 - 2005 – 30¢.
 - 1991 – 5¢.
 - 1969 – 2¢.
- Other tobacco products (OTP) are taxed at 12.8% on the price of the product.
 - 2009 – 12.8%.
 - 2007 – 10%.
 - 2005 – 3%.
 - 1992 – 2%.

Cigarette taxes by state

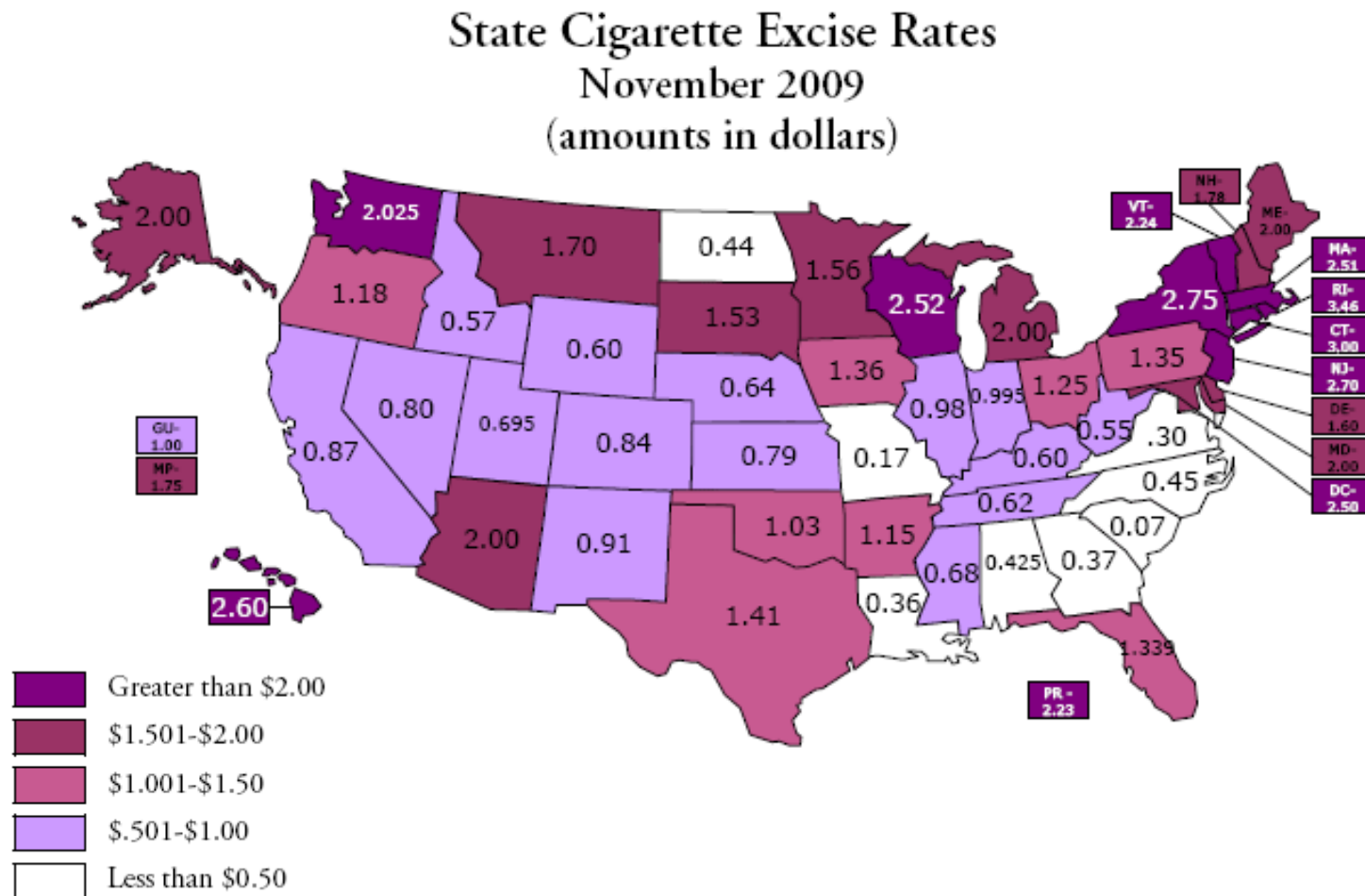


Image from NCSL.

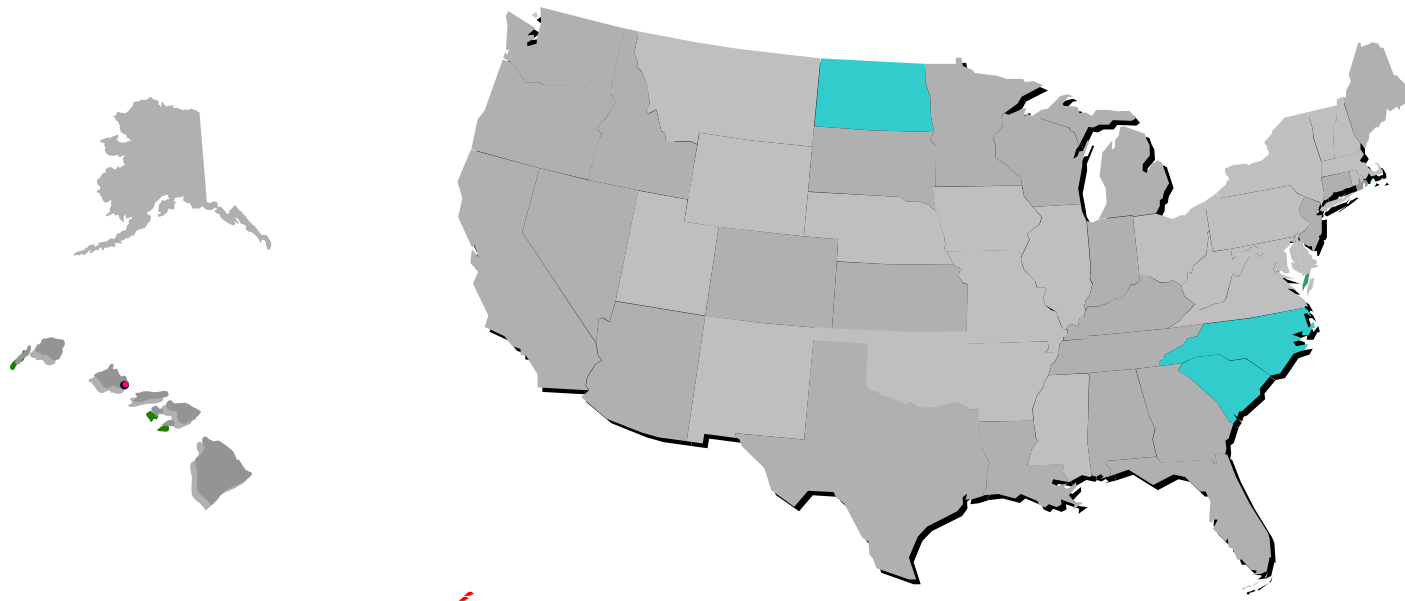


Cigarette tax stamps

Photo of cigarette tax stamps

47 states require stamps

North Carolina, South Carolina, and North Dakota do not require cigarette tax stamps.



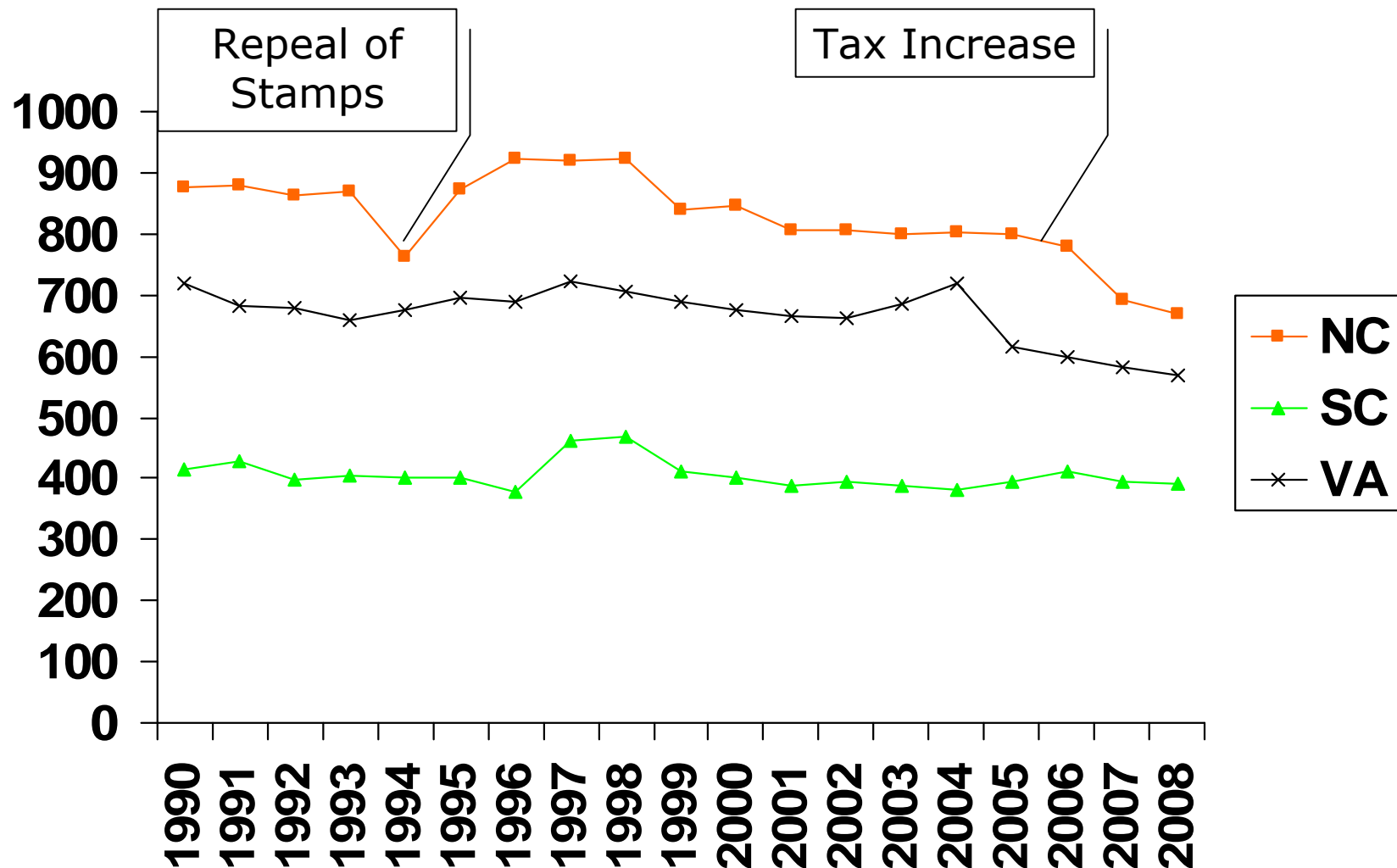


NC history: stamps

- **1969:** Chapter 1075 of the 1969 Session Laws.
 - New 2¢ per pack on cigarettes.
 - Cigarette tax stamps required.
- **1993:** Chapter 442 of the 1993 Session Laws.
 - Eliminated stamps. Allowed for the payment of the tax by reporting.

Cigarette Sales (in Millions of Packs)

Source: The Tax Burden on Tobacco 2008, Volume 43

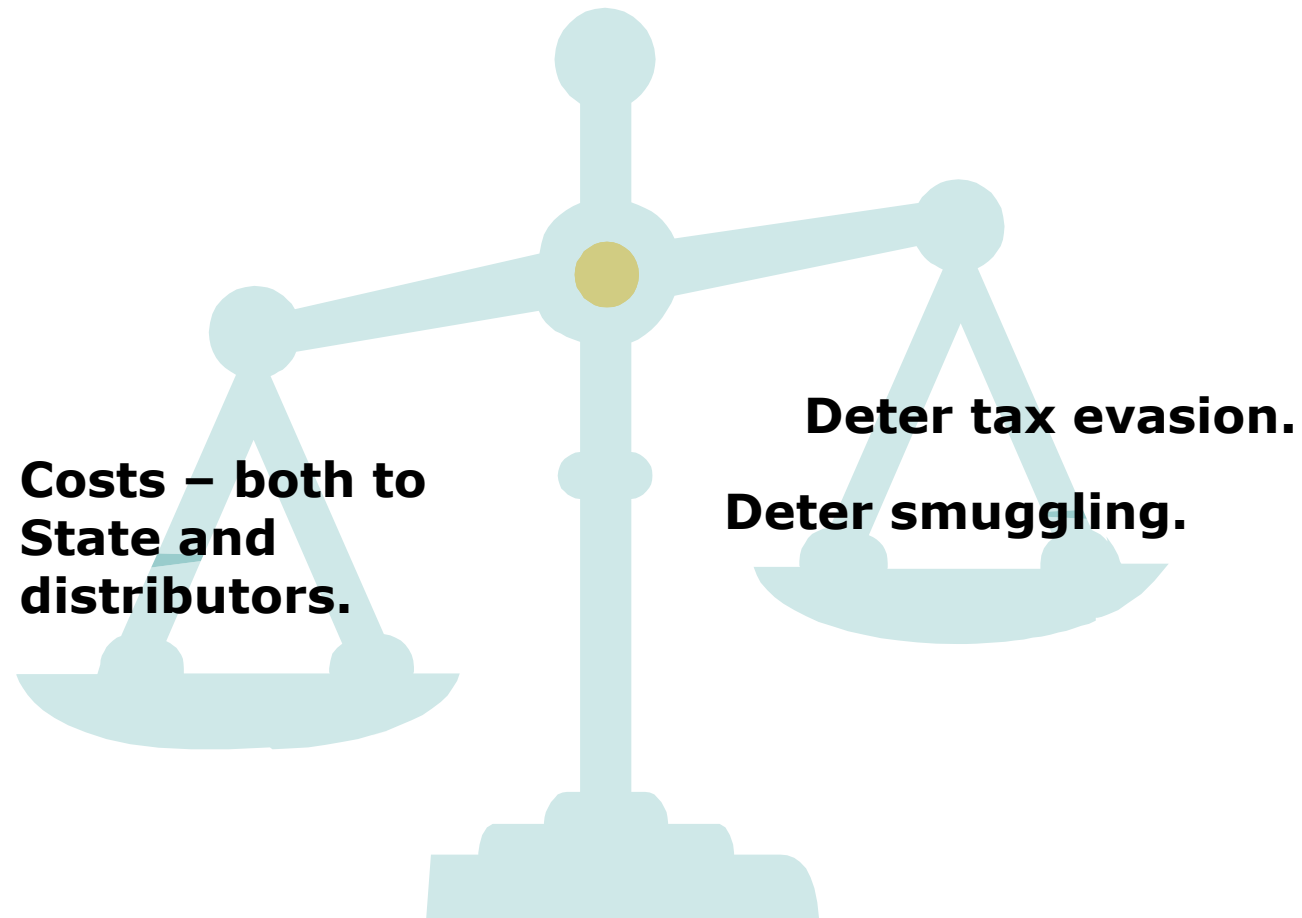




NC history: discounts

- **1969:** 7/24¢ per stamp on sale of stamps over \$100 for expenses associated with stamps.
- **1993:** 4% discount on amount due for costs of filing reports.
- **2003:** Repealed.
- **2004:** Reinstated, 2% discount on amount due.

Costs and potential benefits





Fiscal Impact:

- 1994 Repeal of Stamps
 - Cigarette sales +18% in one year.
- Re-enacting Stamp Program
 - Potential loss of \$5.0 mil per fiscal year.
 - Accounts for long-distance and cross border sales.



Options:

- Maintain current reporting system.
- Require stamps:
 - What kind of stamps?
 - How to offset increased costs to State and taxpayers?
 - Increased enforcement?



Overview

- Current taxation.
- Cigarette tax stamps in North Carolina.
- Other tobacco products and little cigars.



Other tobacco products – OTP

Photos of other tobacco products



OTP taxation in other states

- Method of taxation varies:
 - Taxed by price.
 - Taxed by weight.
- OTP can be divided in 3 broad categories:
 - Snuff.
 - Chewing & smoking tobacco.
 - Cigars.



OTP taxation in surrounding states

Virginia	
Snuff	10% of price
Chewing tobacco	
Smoking tobacco	
Cigars	

Tennessee	
Snuff	6.6% of price
Chewing tobacco	
Smoking tobacco	
Cigars	

Georgia	
Snuff	10% of price
Chewing & smoking tobacco	
Little cigars	25¢ ea
Cigars	23%

South Carolina	
Snuff	5% of price
Chewing tobacco	
Smoking tobacco	
Cigars	



What is a little cigar?

Photo of little cigar,
cigarettes, and cigar

Little cigar

Cigarette

Cigar



Variety of little cigars

Photo of little cigars and
cigarillos,

Photo of 20
pack of little
cigars



North Carolina definitions:

- Cigar. – **A roll of tobacco wrapped in a substance that contains tobacco**, other than a cigarette.
- Cigarette. – Any of the following:
 - a. A roll of tobacco **wrapped in paper** or in a substance that does not contain tobacco.
 - b. **A roll of tobacco wrapped in a substance that contains tobacco** and that, because of its appearance, the type of tobacco used in the filler, or its packaging and labeling, is likely to be offered to or purchased by a consumer as a cigarette described in subpart a. of this subdivision.



Other states – little cigars

- 12 states, including Tennessee, tax little cigars as cigarettes.
 - California
 - Connecticut
 - Georgia
 - Hawaii
 - Iowa
 - Massachusetts
 - Montana
 - New Hampshire
 - Pennsylvania
 - Rhode Island
 - Tennessee
 - Vermont
- April 2009 – Federal: little cigars taxed as cigarettes at \$1.01 per pack.



Options:

- Maintain current law.
- Change definition of cigarette to include little cigars:
 - Tennessee – “all rolled, shredded, or cut tobacco....being within customary cigarette sizes and marketed in cigarette type packages.”
- Define “little cigars” and increase tax:
 - New York - “...and weighing not more than three pounds per thousand...[and] meets the definition of 'cigarette' under this article.”



Fiscal Impact:

- Maintain current law.
 - 12.8% of purchase price ~\$0.32 per pack
- Include little cigars in definition of cigarette.
 - Additional revenue +\$1M
- Create definition for little cigars, tax as OTP.
 - 18% of purchase price ~\$0.45 per pack
 - Pros:
 - Revenue keeps apace with inflation
 - Does not effect Cancer Research Fund earmarking