

## OLR Backgrounder: Cigarette and Tobacco Taxes

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### Issue

Briefly explain Connecticut's cigarette and tobacco products taxes and how they compare to similar taxes in surrounding states.

### Summary

Connecticut imposes excise taxes on cigarettes and other tobacco products, including snuff, pipe, and chewing tobacco and cigars. Beginning December 1, 2017, the cigarette tax is \$4.35 per pack and the tobacco products tax is \$3 per ounce on snuff tobacco and generally 50% of the wholesale sales price for other tobacco products. Reduced cigarette and tobacco products tax rates apply to certain "modified risk tobacco products" beginning December 1, 2017. Both taxes are imposed at the wholesale level but passed along to consumers as part of the products' retail price. Cigarettes and tobacco products are also subject to the state's 6.35% sales and use tax.

New York and Connecticut, as of December 1, 2017, have the highest state cigarette tax rates in the region at \$4.35 per pack, followed by Rhode Island at \$4.25 per pack. (New York City has the highest combined state and local rate at \$5.85 per pack.) Tobacco taxes are not as easy to compare across states because some states tax tobacco products based on weight (i.e., per unit tax), while others do so based on wholesale price (i.e., ad valorem tax).

# Cigarette and Tobacco Taxes

## *Cigarette Tax*

**Tax Rate and Stamps.** Connecticut imposes a tax on all cigarettes sold in the state. The tax rate is \$3.90 per pack until December 1, 2017, when it is scheduled to increase to \$4.35 per pack ([CGS § 12-296](#), as amended by SB 1502, June Special Session (§§ 628-630)). Beginning December 1, 2017, the tax rate on modified risk tobacco products, as determined by the U.S. Department of Health and Human Services secretary, is reduced by 50% (i.e., \$2.175 per pack). Under federal law, modified risk tobacco products are tobacco products that are sold or distributed for use to reduce harm or the risk of tobacco-related disease associated with commercially marketed tobacco products ([21 USC 387k](#)).

The tax is levied on licensed cigarette distributors and dealers, but it is ultimately passed through to retail customers as part of the price of each cigarette pack. Distributors and dealers pay the tax by purchasing tax stamps or heat-applied decals from the Department of Revenue Services (DRS), which they must affix to each package of cigarettes before distributing it. Distributors get a 1% discount on stamps; dealers must pay face value ([CGS § 12-298](#)).

**Distributors and Dealers.** By law, a distributor is generally anyone who:

1. is an in-state cigarette manufacturer,
2. buys cigarettes at wholesale and sells at least 75% of them to licensed dealers,
3. operates at least five retail stores in the state where cigarettes are sold,
4. has 25 or more cigarette vending machines and buys cigarettes at wholesale,
5. imports unstamped cigarettes and sells at least 75% to others for resale, or
6. operates a Connecticut storage facility for unstamped cigarettes ([CGS § 12-285\(a\)\(2\)](#)).

A dealer is anyone, other than a distributor, who sells cigarettes at retail in Connecticut, including those operating fewer than 25 vending machines ([CGS § 12-285\(a\)\(5\)](#)).

**Exemptions.** The tax does not apply to (1) cigarettes sold to state facilities other than prisons; (2) cigarettes sold to U.S. veterans' hospitals and members of the U.S. Armed Forces, if they are sold on a military base by an agency permitted by federal regulation to operate there; or (3) the use or storage of up to 200 cigarettes (one carton) brought into the state by a traveler (i.e., on his or her person or in baggage) ([CGS §§ 12-297](#), as amended by PA 17-147 (§ 29), and [CGS § 12-320](#)).

## ***Tobacco Products Tax***

***Tax Rate and Base.*** The state imposes a tax on all non-cigarette tobacco products in the state, including cigars, stogies, snuff, pipe, and chewing tobacco. The tax is levied on licensed distributors and unclassified importers when the tobacco products are manufactured, imported, or purchased. As with the cigarette tax, the tobacco products tax is ultimately passed through to retail customers as part of the price of each tobacco product.

The tax rate differs according to the type of tobacco product. Tobacco products, other than snuff tobacco, are taxed at 50% of their wholesale price. Snuff tobacco is taxed at a rate of \$1 per ounce until December 1, 2017, when it is scheduled to increase to \$3 per ounce. The tax on cigars is capped at 50 cents ([CGS § 12-330c](#)). As with the cigarette tax, the tobacco products tax is reduced by 50% for modified risk tobacco products, beginning December 1, 2017.

***Distributors and Importers.*** By law, a distributor is anyone who (1) manufactures tobacco products, (2) purchases untaxed tobacco products at wholesale from manufacturers or other distributors, or (3) imports untaxed tobacco products and sells at least 75% of them ([CGS § 12-330a\(3\)](#)). An unclassified importer is anyone, other than a distributor, who imports, receives, or acquires untaxed tobacco products from outside this state for his or her personal use or consumption in the state ([CGS § 12-330a\(4\)](#)).

***Exemptions.*** The tax does not apply to tobacco products (1) exported from the state or (2) exempt from tax pursuant to federal law ([CGS § 12-330c](#)).

### ***Revenue***

Table 1 shows the amount of revenue the state received from cigarette and tobacco taxes in FYs 14 through 16.

**Table 1: Cigarette and Tobacco Products Excise Tax Revenue**

FY	Cigarette Tax	Tobacco Products Tax		
		Snuff Tobacco	Cigars (> \$1)	Other Tobacco Products
16	\$361,578,691	\$4,807,575	\$1,090,566	\$6,346,391
15	348,169,977	4,144,666	1,446,305	5,240,806
14	364,655,595	4,480,315	1,205,968	6,380,772

Source: DRS [FY 16 Annual Report](#)

## **Cigarette and Tobacco Taxes in Surrounding States**

Table 2 provides the state cigarette and tobacco tax rates in Connecticut and surrounding states. As it shows, New York and Connecticut impose the highest state cigarette tax rates in the region at \$4.35 per pack, followed by Rhode Island at \$4.25 per pack. (New York City has the highest combined state and local rate at \$5.85 per pack.) New Hampshire imposes the lowest rate in the region at \$1.78 per pack.

Tobacco taxes are not as easy to compare across states because some states tax tobacco products based on weight (i.e., per unit tax), while others do so based on wholesale price (i.e., ad valorem tax). Connecticut and Vermont impose the highest per unit taxes on snuff in the region at \$3 and \$2.57 per ounce, respectively. Massachusetts imposes the highest ad valorem tax on snuff at 210% of the wholesale price. With two exceptions, the states impose uniform ad valorem taxes on all other tobacco products. Vermont's and Rhode Island's rates are the highest at 92% and 80% of wholesale price, respectively. The exceptions are Maine and Massachusetts, which impose different per unit taxes on chewing tobacco than for other tobacco products (\$2.02 per ounce and 210% of wholesale price, respectively). Connecticut, Rhode Island, and Vermont cap the total tax on cigars, while New Hampshire exempts certain premium cigars from the tax entirely.

Table 2: Tobacco Taxes in Connecticut and Surrounding States

State	Cigarette Tax Rate (per pack of 20)	Tobacco Products Tax Rate and Base			
		Snuff	Chewing Tobacco	Smoking Tobacco	Cigars
Connecticut <sup>1</sup>	\$3.90; \$4.35 beginning 12/1/17	\$1 per ounce; \$3 per ounce beginning 12/1/17	50% of wholesale price	50% of wholesale price	50% of wholesale price; capped at \$0.50 per cigar
Maine	\$2.00	\$2.02 per ounce; \$2.02 per package containing less than one ounce	\$2.02 per ounce; \$2.02 per package containing less than one ounce	20% of wholesale price	20% of wholesale price
Massachusetts	\$3.51	210% of wholesale price	210% of wholesale price	40% of wholesale price	40% of wholesale price
New Hampshire	\$1.78	65.03% of wholesale price	65.03% of wholesale price	65.03% of wholesale price	65.03% of wholesale price (certain premium cigars are exempt)
New Jersey	\$2.70	30% of wholesale price, except tax on moist snuff is \$0.75 per ounce	30% of wholesale price	30% of wholesale price	30% of wholesale price
New York <sup>2</sup>	\$4.35 (\$5.85 in New York City)	\$2 per ounce; \$2 per package containing one ounce or less	75% of wholesale price	75% of wholesale price	75% of wholesale price
Rhode Island	\$4.25	\$1 per ounce; \$1.20 per container if packaged in quantities of less than 1.2 ounces	80% of wholesale price	80% of wholesale price	80% of wholesale price; capped at \$0.50 per cigar
Vermont	\$3.08	\$2.57 per ounce; \$3.08 per container if packaged in quantities of less than 1.2 ounces	92% of wholesale price	92% of wholesale price	92% of wholesale price; capped at (1) \$2 if wholesale price is between \$2.18 and \$10 (2) \$4 if wholesale price is \$10 or greater

Source: State tax department websites (accessed November 1, 2017)

<sup>1</sup> Modified risk tobacco products are subject to reduced tax rates as of December 1, 2017

<sup>2</sup> New York City imposes a local cigarette excise tax of \$1.50 per pack, bringing the combined tax rate to \$5.85

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