

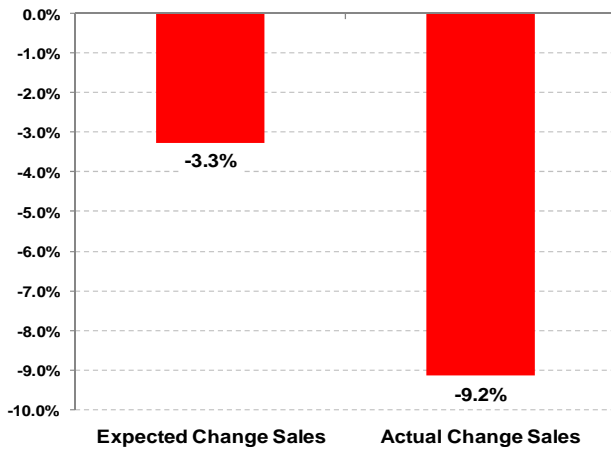
## New Jersey's Latest Cigarette Excise Tax Increase Contributed to a Decline in Total Cigarette Tax Revenues

Effective July 2006, New Jersey increased its cigarette excise tax from \$2.40 per pack to \$2.575 per pack. The 17½ cent tax increase was expected to raise an additional \$30 million in state revenue.<sup>1</sup> Instead of raising revenues for the government, the additional tax burden on smokers contributed to a *loss* of tax revenues.

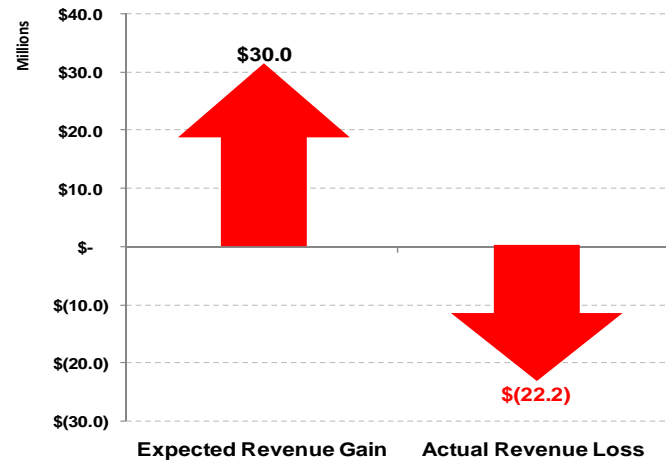
### Tax-Paid Sales Declined More than Expectations

In fiscal year 2006, total tax-paid sales in New Jersey were 328.6 million packs, and total cigarette tax revenues were \$788.7 million. In order for a 17½ cent cigarette tax increase to raise \$30 million in additional revenues, tax-paid cigarette sales would have to decline by 10.7 million packs or 3.3%. Instead, following the cigarette tax increase, tax-paid cigarette sales actually declined by 30.1 million packs or 9.2%.<sup>2</sup>

**Figure 1: Expected Versus Actual Decline in Tax-Paid Cigarette Sales Following 17½ Cent Cigarette Tax Increase**



**Figure 2: Expected Tax Revenue Gain Compared to Actual Revenue Loss Following 17½ Cent Cigarette Tax Increase**



### Fewer Sales Led to a Decline in Total Cigarette Tax Revenues Collected

The actual decline in tax-paid cigarette sales was nearly *three times* as large as the expected decline in tax-paid cigarette sales. Due to the larger than expected decline in tax-paid sales, total cigarette revenues raised a total of \$766.5 million in FY2007 compared to a total of \$788.7 million in FY2006. Not only did the cigarette tax increase not raise the projected \$30 million, the increase actually contributed to a revenue decline of \$22.2 million, leaving the state with a \$52.2 million revenue gap.

Instead of New Jersey having more revenues to fund government programs, the 17 ½ cent cigarette excise tax increase led to lower revenues to support the state's operations.

<sup>1</sup> Assembly Budget Committee Statement to Assembly, No. 4705, State of New Jersey, July 7, 2006.

<sup>2</sup> Tax-paid sales and tax revenue data are from: Bill Orzechowski & Rob Walker, *The Tax Burden on Tobacco*, vol. 43 (February 2009); funded in part by Altria Client Services Inc.

