

CIGARETTE SALES GO UP IN SMOKE

Legal sales of cigarettes have plummeted in recent years, meaning Wisconsin's state government is receiving much less in revenue from cigarette taxes. The decline in smoking likely provides net benefits to the state overall, however, including better health for the state's population and lower Medicaid costs.

In 2022, just under 193 million packs of cigarettes were legally sold in Wisconsin, figures from the Wisconsin Department of Revenue (DOR) show. That represents fewer than half of the total packs sold legally in 2001, when just under 420 million were purchased.

There are many likely causes for this decline, including public health messaging, the growth of substitute products, and changes in federal, state, and local policies. That said, one likely contributor that stands out in Wisconsin is the multiple, significant tax rate increases the state put in place in 2002, 2008, and 2009, as well as a broad ban on smoking in indoor spaces, including restaurants and bars approved by lawmakers in 2010 (see Figure 1).

The implications of this decline are wide ranging. The state of Wisconsin, which used to receive more than 4%

of its overall tax revenues from cigarette sales, has seen those numbers drop since the last major rate hike. But most other impacts will likely benefit the state: fewer smokers mean lower rates of disability and diseases like cancer, heart disease, and lung disease, as well as lower public and private health care costs.

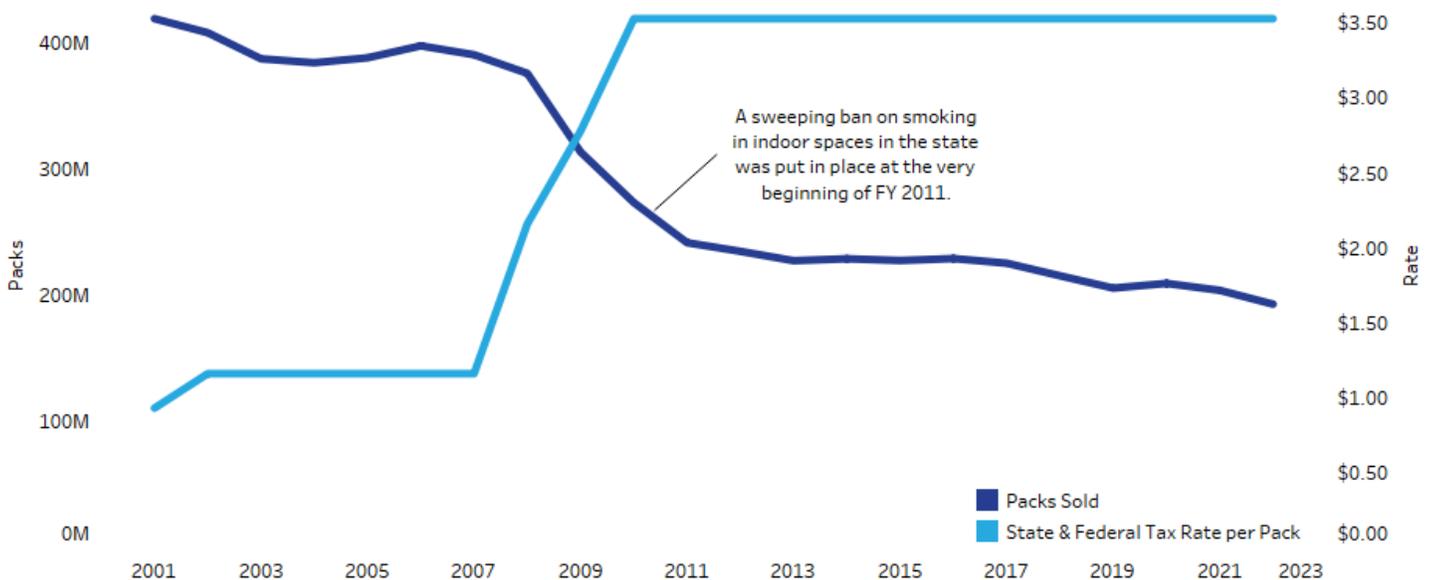
This brief reviews the reasons for and implications of the decline in cigarette smoking and tobacco tax revenues here. In Wisconsin, cigarettes are taxed on a per-pack basis; DOR tracks the number of packs sold using tax stamps, showing how trends in consumption of legally purchased cigarettes have changed over time.

WISCONSIN HAS FEWER SMOKERS

Hundreds of millions fewer packs of cigarettes with tax stamps are being sold in the state now compared to 20

Figure 1: With Higher Taxes, Wisconsin Selling Fewer and Fewer Cigarettes

Total packs with state tax stamps sold (dark blue) vs. state & federal taxes per pack (light blue)



Source: Wisconsin Department of Revenue



years ago. On a per capita basis, 32.4 packs of cigarettes per state resident were sold in fiscal year 2022 in Wisconsin (July 1, 2021 through June 30, 2022), compared to 77.7 per person in fiscal year 2001. That equates to a 58.2% drop on a per capita basis, as well as a 54.0% total decline in legal packs sold.

This trend reflects in part a shift in social views and customs as information has spread detailing the harmful health impacts of smoking. Smoking has been prohibited in most public places and products that support cessation – such as nicotine patches or gum – have also become more widely available over time.

In addition, the state of Wisconsin raised its cigarette taxes three times, first from 59 cents per pack to 77 cents per pack in 2002, then again to \$1.77 in 2008 and \$2.52 in 2009. At the federal level, lawmakers also hiked cigarette taxes, from 34 cents to 39 cents per pack in 2002 and again to \$1.01 in 2009.

As shown in Figure 1 on page 1, the largest annual declines in packs legally purchased in Wisconsin occurred in years immediately following these rate increases. For example, from 2007 to 2012 alone, purchases declined from 390.8 million to 234.9 million packs (-39.9%); this is also likely due in part to the fact that beginning in July 2010, the state banned smoking in a wide range of indoor spaces. Also, recessions in 2001 and 2008 and 2009 reduced incomes nationwide; similar to a tax increase, a drop in smokers' incomes may have also reduced cigarette consumption.

Another potential factor is that some consumers may be switching from cigarettes to various substitute products such as vaping devices. In 2019, Wisconsin implemented a five-cent tax per milliliter of vapor product liquid (for more, see our July 2019 [Focus](#)). After just \$1.3 million and \$1.6 million in revenue in FY 2020 and 2021, in FY 2022 the state will receive \$4.1 million from vapor product taxes, suggesting an increase in purchases of legal vaping products. A variety of factors, including the perceived difference in health effects and the disparity in tax rates between these two products, may cause individuals to switch to vaping from smoking.

Regardless of the cause, the evidence points to less smoking over time. Per the [Centers for Disease Control and Prevention \(CDC\)](#), the population of current smokers amongst Wisconsin adults declined from

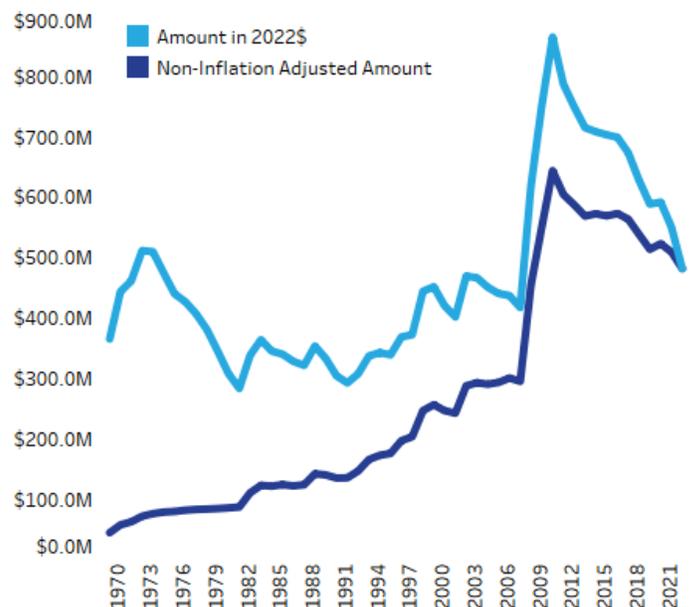
24.1% in 2000 to 13.3% in 2021. Declines in the state's youngest adults were even more striking: in 2011, 23.0% of adults ages 18 to 24 were current smokers, while by 2020 that had dropped to just 7.4%. Substantial declines in young adult smoking could result in generational declines over time if these behaviors persist. [Research also shows](#) that with their lower incomes, younger smokers are substantially more responsive to increases in the price of cigarettes relative to adults – a likely factor in a state that has more than tripled its tax rate during the 2000s.

Still, while the data point to there being fewer cigarette smokers now than at any point in recent memory, one potential consequence of higher tax rates is an increase in consumer purchases in neighboring states, as well as cigarette smuggling. According to the [National Research Council](#), large differences in the level of taxation between jurisdictions can contribute to smuggling; while Illinois or Minnesota both have higher taxes per pack than Wisconsin, other neighboring states such as Michigan, Iowa, and Indiana all have lower rates that open up the possibility of out-of-state purchases.

CIGARETTE TAX DECLINES IMPACT STATE REVENUES, BUT NOT NECESSARILY BUDGET

The decline in cigarette consumption has also produced a sizable drop in state tax revenue. In FY 2010,

Figure 2: Cigarette Tax Revenues Rise, Then Fall
Total cigarette tax revenues by fiscal year, 1969 to 2022



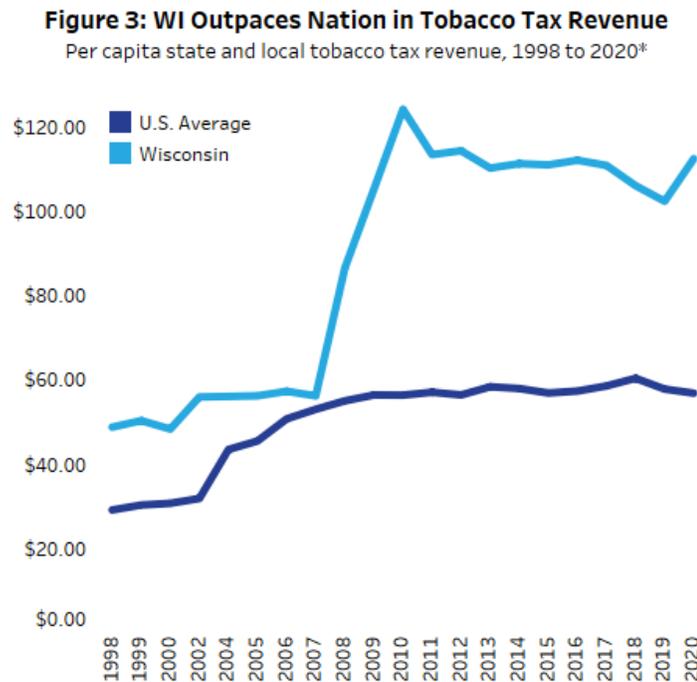
Source: Wisconsin Department of Revenue, Bureau of Labor Statistics



following the per-pack rate increases of 2008 and 2009 but prior to sweeping indoor smoking bans, the cigarette tax generated \$644.3 million – 4.3% of state taxes that year as tracked by the Forum. Total collections in FY 2022 were \$482.4 million, or 2.0% of all state taxes. After factoring in inflation, that represents a 44.2% decline in cigarette tax revenues over the last 12 years (see Figure 2 on page 2).

Despite these declines, Wisconsin still taxes cigarettes at a higher rate than most other states. According to the Federation of Tax Administrators, as of January 2022, the state’s current rate of \$2.52 per pack is the 16th-highest in the country, and is higher than the [current U.S. median](#) of \$1.78.

The U.S. Census Bureau collects data on the amount of tax revenues raised through the sale of all tobacco products, and cigarettes account for the vast majority of collections in this category. Per 2020 Census Bureau data (the most recent available), Wisconsin receives about \$112.45 per capita in tobacco products taxes, or about 0.21% of all personal income in the state that year – both of which rank sixth-highest in the country (see Figure 3). Thus, despite the noticeable decrease in smoking habits of statewide residents, Wisconsin’s high tax rates have kept it in the top 10 for both of these measures in every year since 2009.



Source: U.S. Census Bureau. *2001 and 2003 missing data.

While ongoing declines in smoking may also mean state revenue declines, a broader cost-benefit calculation of the impact of less smoking would likely generate positive numbers for the state. Medicaid health programs for low-income recipients represent the state’s second-largest expense, with general fund spending in 2022 totaling \$2.94 billion. [According to the CDC](#), the prevalence of smoking among adults enrolled in Medicaid nationally is more than double the rate among those who are privately insured. Smoking also causes health complications for which Medicaid covers treatment. In addition, the private sector faces costs both in health care and lost worker productivity.

The state has also adopted some other policies that may reduce smoking. Wisconsin is one of just 18 states that provide coverage of all seven FDA-approved smoking cessation medications and individual and group counseling to all Medicaid enrollees as of September 30, 2022, according to the [CDC](#). That includes coverage of the counseling, nicotine patches, lozenges, nasal spray, inhalers, and gum, as well as two medicines that support cessation.

That said, relatively little of the state’s tobacco tax revenues are spent on other prevention and cessation efforts. [According to the Legislative Fiscal Bureau](#), annual funding for controlling tobacco use in the state is just over \$5.3 million; Gov. Tony Evers proposed adding \$2 million to that total in the last state budget for a public health campaign aimed at curbing new tobacco or vapor product users but the funding was cut by the Legislature’s Joint Finance Committee.

FUTURE IMPLICATIONS

The rapid decline in cigarette smoking in Wisconsin represents one of the most notable public health changes for its residents of the past two decades. The lessons from this shift are worth considering as the state mulls both the continued impact of smoking in the state as well as other potential public health issues such as excessive drinking or vaping.

While Wisconsin continues to lose tobacco tax revenue year after year, the overall state budget [remains robust](#), easing any concern the drop might have provoked in the past. Even if the state’s finances deteriorate, there is good reason to think the state has benefited from the tradeoff of lower tax revenues but improved public health and lower health care costs.

