

LEGISLATIVE  
**TESTIMONY**

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# **Cigarette Taxes and Smuggling Rates**

Massachusetts Joint Committee on Revenue

My name is Michael LaFaive, and I am an economist at the Mackinac Center for Public Policy in Midland, Michigan. I am the Center's expert in cigarette tax evasion and avoidance, or what we call, "smuggling."

The statistical model that my colleague, Todd Nesbit of Ball State University, and I used to estimate smuggling is updated every year. It tells us that the Bay State's current smuggling rate is 38% of the total market in 2023. That means more than one out of every three cigarettes consumed in Massachusetts is illicit. That is the third worst rate in the nation, behind only California and New York.

Our model can also be used to run "what if" scenarios. When we programmed the model to measure the proposed 28% cigarette excise tax increase, it estimated the smuggling rate would leap to 50%. Revenue would increase by 2%, or \$6.7 million.

Other academic research supports these findings. A study performed in 2011, and published in the scholarly journal, "Tobacco Control" by eight university academics, found that 48% of discarded cigarette packs collected in Boston did not show the proper tax stamp. A tax stamp shows where taxes were paid. Their findings suggest that about half of the cigarettes people smoked in Boston were acquired elsewhere. This study was done when the state excise tax was only \$2.51 per pack.

Because of smuggling, a \$1.00 tax hike on cigarettes in Massachusetts may do more to improve the fiscal health of the New Hampshire treasury than the physical health of Bay State citizens. As cigarette tax rates continue to rise in states around them, New Hampshire pulled in an estimated \$46 million more in tax revenue in 2023 from people buying cigarettes to smuggle elsewhere.

Whether the Commonwealth votes to raise cigarette taxes or not it should consider commissioning a statewide discarded packs study. This can provide you with street-level data on the illicit market and inform decision making in great detail.

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