

— LEGISLATIVE —  
**TESTIMONY**

*February 7, 2025*

MICHAEL D. LAFAIVE

# **Cigarette Taxes, Smuggling and the Laffer Curve**

Senate Committee on Finance,  
State of Rhode Island

# Testimony on House Bill 5076

---

Thank you for the opportunity to submit written testimony about the proposed cigarette tax increase found in House Bill 5076. My estimates — along with those of my colleague, Todd Nesbit — indicate that increasing the cigarette tax by 50 cents per pack will generate no new revenue for the state. In fact, it will likely mean less tax revenue and few public health benefits.

I am an economist with the Michigan-based Mackinac Center for Public Policy. In 2008, Ball State University professor Todd Nesbit and I built a statistical model to measure the degree to which cigarettes are smuggled from state to state, as well as into the United States from Mexico or out to Canada. We update it each year.

Our model tells us that through 2022, 20% of cigarette consumption in Rhode Island was a function of tax evasion and avoidance, or what we call “smuggling.” That will change significantly due to the September 2024 increase, and it would change again if the newly proposed 50-cent excise tax increase were adopted. We ran that scenario through our model, and it reported that smuggling would leap to 35% of the marketplace. It will also mean that Rhode Island’s smuggling rate will jump from 16th highest among the states to seventh.

If those numbers aren’t compelling, consider that the model also reported that Rhode Island will find itself on the wrong side of the Laffer Curve. The rate of excise taxation will throttle (legal) economic cigarette sales activity so much that it will make tax revenue go down, not increase. Our model reports that cigarette excise tax revenue in Rhode Island will decline by \$4.5 million, or 3.3%, as a result of increased smuggling brought on by increasing the per-pack tax.

It is also unlikely that the tax hike will cause many people to kick the smoking habit. Those individuals who are still smoking in Rhode Island, paying \$4.50 in taxes per pack, clearly have a strong preference for doing so.

The title of a 2013 paper in the journal *Economic Inquiry* asked an important question: “Do Higher Tobacco Taxes Reduce Adult Smoking?” It concluded that a 100% increase in the cigarette tax would cause smoking to decrease by only 5%. Keep in mind, too, that this study was conducted when cigarette excise tax rates were generally lower.

None of this is to say that Professor Nesbit and I want to encourage smoking. We have never smoked cigarettes, don’t intend to, and don’t want anyone to start. What we do want is for lawmakers to make decisions with the best information available and to consider the consequences of increasing demand for illegally smuggled cigarettes.

We believe our evidence is compelling. In Rhode Island’s case, this proposed excise tax increase is unlikely to increase revenue or improve public health.

**Michael D. LaFaive**

**Senior Director of the Morey Fiscal Policy Initiative**

**Mackinac Center for Public Policy**

**[mackinac.org](http://mackinac.org)**



The Mackinac Center for Public Policy is dedicated to improving the understanding of economic principles and public policy among private citizens and public officials. A nonprofit and nonpartisan research and education institute, the Mackinac Center has grown to be one of the largest state-based think tanks in the country since its founding in 1987.

Additional information about the Mackinac Center and its mission to improve the quality of life in Michigan through sound public policy can be found at **[www.mackinac.org](http://www.mackinac.org)**.

© 2025 Mackinac Center for Public Policy

140 West Main Street P.O. Box 568 Midland, Michigan 48640

989.631.0900 [Mackinac.org](http://Mackinac.org) [mcpp@mackinac.org](mailto:mcpp@mackinac.org)