

— LEGISLATIVE —
TESTIMONY

March 3, 2025

MICHAEL D. LAFAIVE

**An Act to Establish a
University of Maine
Medical School and to
Dedicate Funds from
Raising the Cigarette
Tax to the School**

Maine Committee on Education
& Cultural Affairs

Members of the Committee:

My name is Michael LaFaive and I am an economist with a Michigan-based research institute. For many years I have studied the impact that cigarette excise taxes have on tax evasion and avoidance, among other cross-border economic phenomena. I am testifying today to provide you with an early warning about the unintended consequences of high excise taxes on cigarettes.

My colleague, professor Todd Nesbit of Ball State University, and I have built a statistical model to measure the degree to which cigarettes are smuggled around the country, and in from Mexico and out to Canada.

Through 2022 our model finds that Maine's cigarette smuggling rate is equal to 7% of all cigarettes consumed in the state. If the one-dollar excise tax hike being proposed in S. 133 is adopted, our model predicts a doubling of that rate to 14% of the marketplace. It would be higher, but we subtract out Maine-bought cigarettes to Canada.

Our model also breaks smuggling into casual and commercial smuggling types. Casual smuggling involves consumers crossing a border to buy cigarettes for personal use. It tells us that Mainers can be expected to smuggle nearly 1.5 million more packs of cigarettes from New Hampshire as a result of the 50% excise tax increase. The Granite State is a perennial source state in the Northeast. Its treasury pulls in \$49 million more each year as a direct result of consumer tax evasion and avoidance.

Cross-border cigarette shopping by Mainers is not the only issue. An extra 2.6 million packs will be smuggled in from more distant states, such as North Carolina or Virginia.

You should know that our model controls for variables that might influence our measures, such as population in Maine's border counties, health trends and more.

Proponents of tax hikes often claim significant declines in smoking resulting from excise tax hikes on cigarettes. There may be some truth to that in very low-tax states, but Maine is not among them. Those who still smoke at \$2.00 per pack have a very strong preference for doing so.

Raising the tax by another dollar per pack is unlikely at the margin to thwart smoking in Maine as it will to further create an environment ripe for smuggling and other unintended consequences.

Thank you for your time and attention.

Michael D. LaFaive
Senior Director of the Morey Fiscal Policy Initiative
Mackinac Center for Public Policy
mackinac.org



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

989.631.0900 Mackinac.org mcpp@mackinac.org