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January 29, 2003



Cigarette Tax Issues



Cigarette consumption has declined steadily over the last few decades both in per capita terms and in total consumption.

- Consumption has declined due to health concerns, smoking restrictions on smoking in work places and public areas, and increases in prices and taxes.
- Per capita consumption (absent that caused by price increases) has declined on average by between 2 percent to 3 percent annually over this period.
- The revenue stream is also susceptible to increased federal, state, and local regulation, and possibly further taxation.



Cigarette tax evasion has been identified as a state problem by the Board of Equalization (BOE), and as a national problem by the Bureau of Alcohol, Tobacco and Firearms.

- The BOE estimates current revenue losses due to tax evasion in the low hundreds of millions of dollars.
- Tax increases for cigarettes would result in higher losses and could encourage additional evasion.
- No new cigarette tax enforcement measures have been proposed as part of the Governor's tax proposal.

January 29, 2003



Cigarette Tax Issues

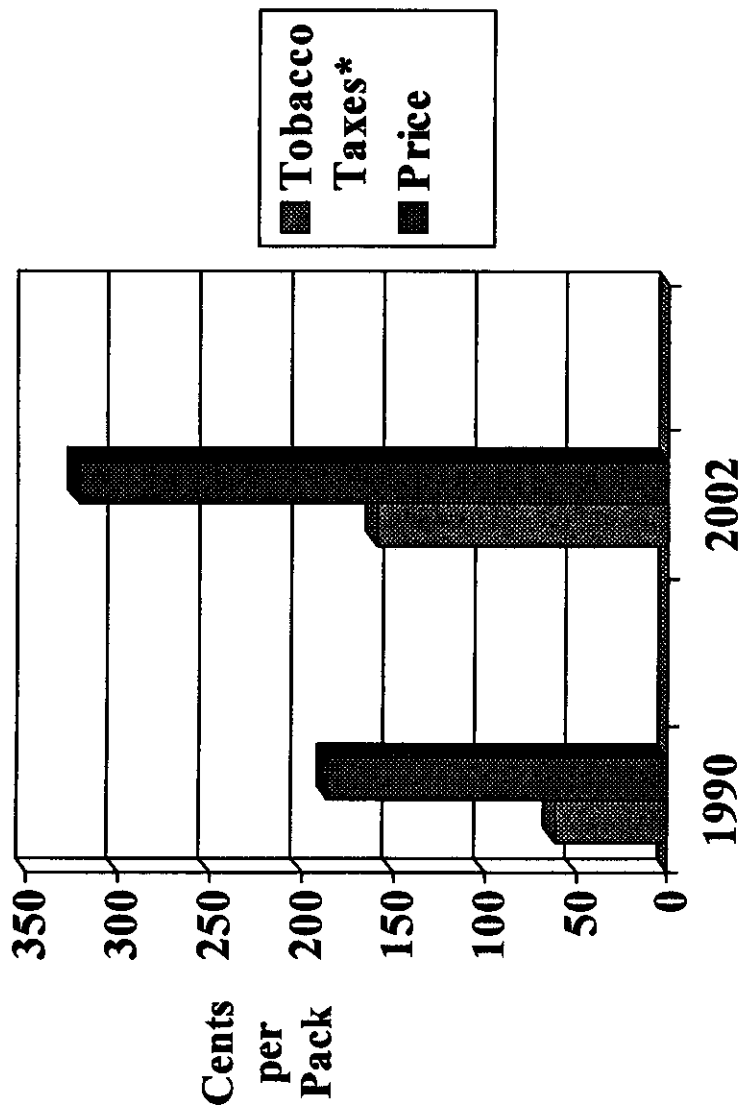
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The appropriate level of taxation for cigarettes is subject to considerable debate.

- The tax is generally regressive in its impacts based on income.
- Most analysts argue that taxation is warranted due to smoking's social costs.

Nevada Cigarette Taxes and Prices: 1990-2002

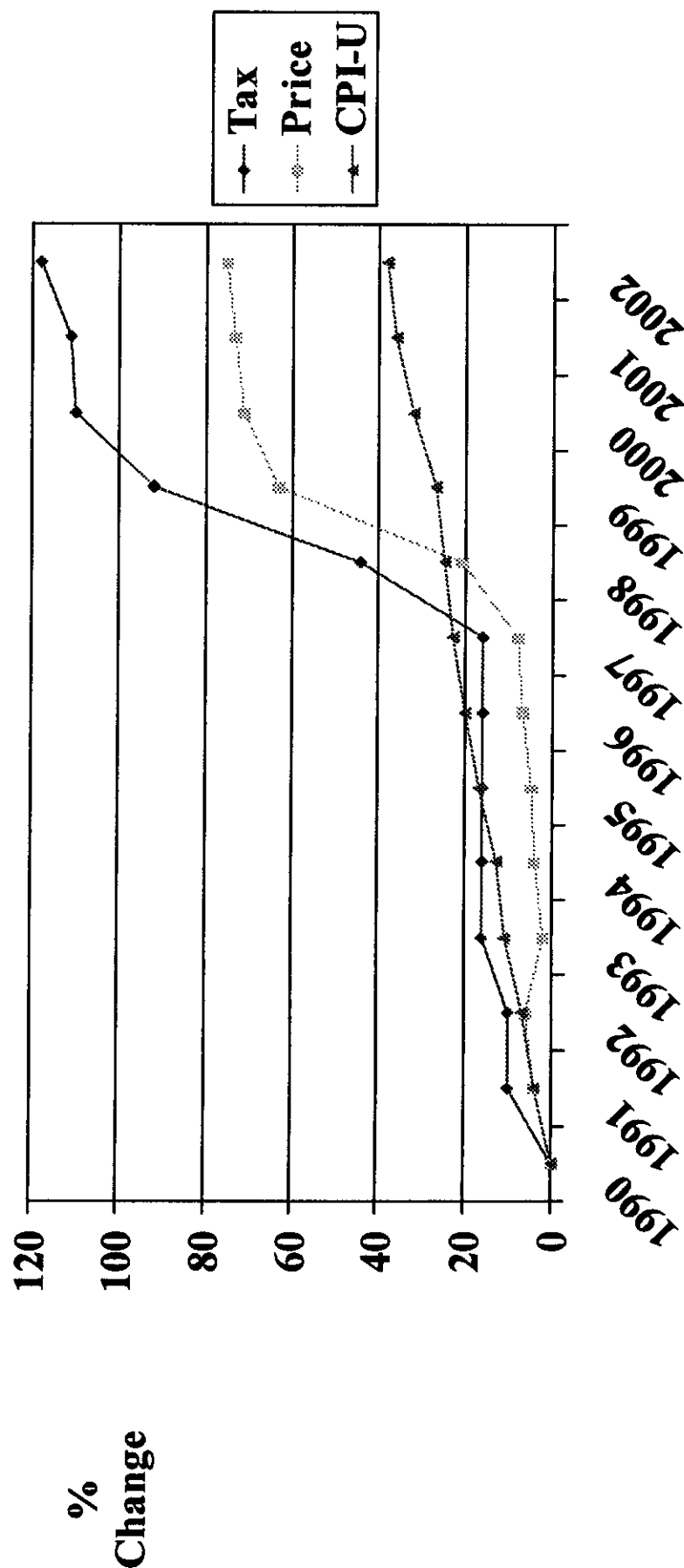


- Cigarette taxes have gone up 118% since 1990 – from 62¢ per pack in 1990 to \$1.40 in 2002.
- Cigarette prices have gone up 75% since 1990 – from \$1.86 to \$3.22 per pack.
- Meanwhile, inflation, as measured by the Consumers Price Index (CPI-U), has gone up only 38% since 1990.

* Includes NV state excise and sales tax (46¢ in 1990, 57¢ in 2002), the federal excise tax (16¢ in 1990, 39¢ in 2002), and the per pack costs of the MSA – the “settlement tax” (0¢ in 1990, est. at 40¢ in 2002).

Nevada Cigarette Taxes and Prices v. Inflation (CPI-U) **Percent Change since 1990**

Since 1990, taxes paid on a pack of cigarettes by Nevada smokers have gone up 118%, and prices have risen 75%. Inflation, as measured by the CPI-U, has only increased by 38% in that time frame.



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