

# Cigarette Tax Collections Collapse Since Pandemic



Independent Fiscal Office | Research Brief | December 2023

Three separate excise taxes could be levied on cigarette sales in Pennsylvania: a federal tax (\$1.01 per pack), a state tax (\$2.60 per pack) and a local tax for sales that occur in Philadelphia (\$2.00 per pack). The figure below displays the contraction in cigarette tax revenues for these levies since state fiscal year (FY) 2018-19. These taxes are levied on a per pack basis (as opposed to price), so they should also reflect cigarette consumption trends at the national, state and city level.

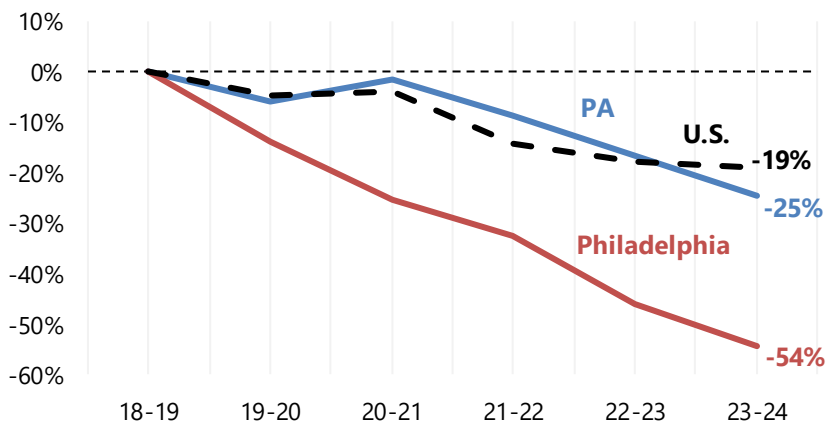
Prior to the COVID-19 pandemic, state cigarette tax revenues declined at an average rate of roughly 3.1% per annum. In FY 2020-21, this trend reversed briefly when revenues increased 4.1% from the prior year. Analysts attribute that outcome to temporary layoffs and more remote working. Since then, revenues have contracted rapidly at an average rate of 8.3% per annum through FY 2022-23. For the first five months of FY 2023-24, state revenues are down 9.4% from the prior year and will be down 24.5% since FY 2018-19 if current trends hold for the full fiscal year. (Note: statewide growth rates exclude Philadelphia sales.)

The statewide trend generally coincides with federal cigarette tax revenues (regular domestic purchases, sales for entire U.S.). Federal revenues declined at an average rate of 4.2% per annum from FY 2018-19 to FY 2023-24 (estimate based preliminary data) and will be 19.1% lower than FY 2018-19 if current trends hold.

The state collects the \$2.00 per pack tax on behalf of Philadelphia, and then transmits those revenues on a monthly basis. Compared to state and federal revenues, Philadelphia cigarette tax collections have declined at a much faster rate since FY 2018-19 (-14.5% per annum, FY 2023-24 based on data through November). It is unclear what factors drive this trend. The \$2.00 per pack tax was first levied in 2014, and consumer response to higher prices should be largely reflected in the FY 2018-19 data. There has been a general shift from cigarettes to vaping, and state

vaping tax revenues have increased rapidly since FY 2020-21 (+45%). However, this outcome does not fully explain the significant divergence in recent city consumption trends compared to Pennsylvania and the U.S. After falling by 20.4% in FY 2022-23, data for the first five months of FY 2023-24 show that Philadelphia cigarette tax collections declined by 15.3%, much stronger than U.S. (-1.7%, first quarter only) and state (-9.4%) revenue trends.

**Cigarette Tax Revenue Growth Since FY 2018-19**



Note: U.S. cigarette tax revenue growth for domestic regular purchases only. Accounts for a shift in U.S. cigarette tax revenues from FY 19-20 to FY 20-21 due to processing delays which occurred due to the COVID-19 pandemic.  
Source: PA Dept. of Revenue, U.S. Alcohol and Tobacco Tax and Trade Bureau.

## Staff Acknowledgements

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