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## Memorandum

**Date:** January 31, 2025

**To:** Members of the Maine State Legislature

**From:** Adam Hoffer, PhD, Director of Excise Taxation, Tax Foundation

**Subject:** Excise Tax Increases in the Governor's Budget Proposal

Maine faces an estimated \$450 million budget shortfall. Tax and spending changes will be necessary to close the budget gap. Governor Mills proposed several changes to balance the budget, including an increase in several excise tax rates. Unfortunately, excise taxes, particularly those applied to a shrinking tax base, are a poor policy solution for a broad budget shortfall. Excise taxes constitute a volatile source of tax revenue; revenues from excise taxes tend to decrease over time while revenues needed for government services tend to grow.

Governor Mills's budget specifically proposes to:

- Increase the excise tax on cigarettes from \$2.00 per pack to \$3.00 per pack
- Increase the excise tax on smokeless tobacco (chewing tobacco and snuff) from \$2.02 per ounce/\$2.02 per package to \$3.03 per ounce/\$3.03 per package
- Increase the excise tax on other tobacco products (OTP)—products other than cigarettes and smokeless tobacco—from 43 percent of cost price to 65 percent of cost price

A tax increase on cigarettes is likely to increase revenue in the short term. Maine's fiscal analysts estimate an increase of roughly \$40 million per year in the first two years. Tax Foundation calculations largely support this estimate. The additional revenue generated from the higher cigarette tax rate will decrease each year, however, as the number of smokers continues to fall. Higher tax rates are also likely to induce more smuggling and illicit trade.

Higher tax rates on smokeless tobacco and OTP also go against recommendations from both Tax Foundation and the US Food and Drug Administration. Products that allow users to consume nicotine via methods other than combustible cigarettes are substantially less harmful to consumers. To encourage users to switch from combustible cigarettes to less harmful products, Tax Foundation recommends a preferential tax rate for these products,

reducing rates between 50 and 100 percent based on how much less harmful these products are and whether cigarette smokers are willing to switch.

Legislatures are charged with the difficult task of striking the right balance: they often simultaneously seek to discourage the take-up of products by non-smokers, encourage harm reduction with smokers switching to vapor products, and raise enough revenue to fund public programs. As you consider these matters, we are happy to be a resource and would be delighted to provide you with more research on this topic. Thank you for your time.