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The Economic Impact of Proposed Tobacco Taxes in LD 210

Governor Mills has proposed increasing cigarette and tobacco excise taxes in her biennial budget. These tax hikes include:

- Increasing the cigarette excise tax by \$1.00 per pack, which would take the current \$2.00 tax to \$3.00 per pack;
- Increasing the tax on smokeless tobacco products from \$2.02 per ounce to \$3.03 per ounce (minimum tax per of \$3.03); and,
- Increasing the tax on other tobacco products (such as nicotine pouches) from 43% of the cost price to 65% of the cost price.

These tax increases would leave Maine's retailers vulnerable to their competitors in low tax New Hampshire and would likely reduce sales to visitors from Massachusetts. Maine's retailers stand to lose more than \$75 million in cigarette and other tobacco product sales, and millions more in sundry product sales (products bought in conjunction with tobacco).

New Hampshire, where the cigarette tax is just \$17.80 per carton and there is no sales tax, is a well-known shopping destination for New Englanders seeking lower-taxed goods. Mainers could save \$17.60 per carton in excise and sales tax shopping across the border.

Table 3. Tax Rate Differentials with Maine, Current and Proposed

<i>State</i>	<i>Current Rate</i>	<i>Current Differential</i>	<i>Proposed Rate</i>	<i>Proposed Differential</i>
Maine	\$2.00	---	\$3.00	---
Massachusetts	\$3.51	\$1.51	\$3.51	\$0.51
New Hampshire	\$1.78	(\$0.22)	\$1.78	(\$1.22)

* New Hampshire does not have a sales tax. In FY2024, this would add \$0.53 to the differential with Maine (i.e., New Hampshire's total current tax advantage would be \$0.75 per pack under current rates, and after the tax increase, about \$2.00 per pack in combined excise and sales taxes).

The evidence suggests that Mainers already do some of their shopping in New Hampshire. For neighboring states with tax differentials, we often look at per capita sales to see if there is evidence of cross-border sales (Table 2). Despite having a higher adult smoking rate, Maine has significantly lower tax-paid sales per capita than New Hampshire.

Table 2. Smoking Prevalence and Per Capita Sales (CDC, 2023)

State	Per Capita Sales (packs)*	Adult Smoking Prevalence
Maine	36.0	14.0%
Massachusetts	12.7	9.8%
New Hampshire	62.4	10.4%

* Per capita sales based on FY2024 data (Tax Burden on Tobacco, Vol. 59, 2024).

Maine’s retailers are also likely to see fewer sales from Massachusetts’ tourists, who will have greater incentives to purchase cigarettes in New Hampshire on the way to Maine. Massachusetts represents the highest share of tourists from any state; in 2023, 14% of all tourists visiting Maine were from Massachusetts.¹ That’s more than 2.1 million visitors from Massachusetts.

Legislators should consider what happened the last time Maine raised their cigarette excise tax by \$1.00 per pack. In the wake of that 2005 increase, tax-paid sales fell by 18%. The cross-border phenomenon that fueled that drop in sales was reported on at the time. Seacoastonline.com reported that just a week into that year’s \$1.00 Maine increase, stores in Portsmouth, New Hampshire were seeing more sales from Mainers crossing the border:

“On a recent weekday, one of those Maine residents walked out of an area store with five cartons of generic-brand cigarettes that cost about \$105. ‘I just saved myself \$100 easy,’ said the 51-year-old man from the Portland, Maine, area who asked that his name not be used.”²

And it wasn’t just consumers fed-up with high taxes in Maine. As the tobacco enforcement coordinator for the Maine Attorneys General office said in the article, “[c]ontraband is an issue we are concerned about.”

Just as in 2005, the proposed tax increase would shift additional sales from Maine to New Hampshire. This would be bad for Maine’s retailers, because tobacco sales are important to them:

- **Maine’s retailers sold 50.3 million packs of cigarettes in FY2024, with a gross retail value of nearly \$489 million.** These merchants earned nearly \$74 million in gross profits from these sales.
- **Tobacco Sales Support Maine Jobs.** Nearly 1,600 Maine retail and wholesale jobs are supported by in-state tobacco sales.³
- **Tobacco sales have a magnified impact on C-Stores.** Nearly 68% of all tobacco sales occur in the nation’s 150,174 C-Stores, according to a 2023 National

¹ Maine Office of Tourism, 2023 Fall Visitor Tracking Report, September 2023 – November 2023.

² Michael McCord, “Maine smokers cross line for deals,” Seacoastonline.com, 26 September 2005. <https://www.seacoastonline.com/story/news/2005/09/26/maine-smokers-cross-state-line/50235926007/>.

³ John Dunham and Associates, “Economic Contribution of the Tobacco Industry – Maine”, New York, New York, 2019.

Association of Convenience Stores (NACS) study. The average C-store sells about \$770,000 worth of cigarettes and other tobacco products each year, which makes these products the top in-store sales item.

- **Maine's 886 C- Stores sold nearly \$330 million worth of cigarettes, with gross profits of roughly \$50 million in FY2024.**

Commercial Losses from a \$1.00 per pack Cigarette Excise Increase

Maine's last cigarette tax increase (\$1.00 per pack in 2005) led to an 18% drop in tax-paid cigarette sales. We project that the proposed \$1.00 per pack tax hike will cause tax-paid cigarette sales to fall by nearly 12%.

- **Retailers will lose cigarette sales with a gross retail value of approximately \$60 million.** Cigarette volume would fall by nearly 6 million packs. Most of these sales would be lost to low-tax states or loss of competitive advantage.
- **Maine retailers could lose more than just tobacco sales.** Consumers are likely to purchase additional goods when they are buying their tobacco products. At C-Stores, where most tobacco products are sold, this can include gas, milk, prepared foods, alcoholic beverages, and other items. These sales, known as sundry product sales, would fall by more than \$15 million (based on past estimates by Price Waterhouse).
- **A detailed study on cigarette sales found that for every \$8.33 in cigarettes purchased buyers bought \$6.87 in non-tobacco products.**⁴ While cross-border sales may not involve the same purchasing patterns as typical shopping, this study indicates that there is potential for much larger sundry losses than Price Waterhouse found.
- **Gross profits lost to Maine retailers and wholesalers due to the loss of cigarette and sundry product sales are estimated at approximately \$15 million.**
- **C-Stores are highly dependent on cigarette sales. Cigarette sales at Maine C-stores would fall by approximately 4.5 million packs.**
- **The average Maine convenience store could lose approximately \$9,300 in gross profits from the decline in cigarette and sundry product sales.** This means each store would have to boost gross retail sales of other items by nearly \$62,000 to make up for the damage wrought by the tax hike.
- **The tax increase would be a job loser for Maine.** It is estimated that close to 200 Maine retailer and wholesaler jobs could be displaced due to the tax increase (based on estimated gross profit losses).

⁴ Presentation by Don Burke, Senior Vice President, Management Science Associates, Inc., at the Federation of Tax Administrators' Annual Meeting (Tobacco Tax Section), Albuquerque, New Mexico, August 13, 2013.

Commercial Losses from Increasing the Smokeless Tobacco and Vapor Products Tax⁵

Smokeless tobacco and vapor products are important to Maine retailers. In 2024, Maine retailers:

- **Sold nearly 3.5 million containers of moist snuff with an estimated retail value of approximately \$26.5 million.**
- **Sold nearly 4.41 million containers of new modern oral product (NMO) with an estimated retail value of \$27.1 million. Combined, the value of smokeless products sold was greater than \$55.6 million.⁶**
- **Sold an estimated 5.1 million pods or cartridges for closed vapor systems and about 3.3 million disposable vapor products. They also sold approximately 2.3 million ml. of vapor fluid for open vapor systems. These products have a combined retail value of nearly \$83 million.⁷**

The proposed tax would raise the tax on moist snuff tobacco products by \$2.02 per ounce to \$3.03 per ounce (with a minimum tax of \$3.03); this would raise the retail price on these products by approximately 15%. Mainers could save close to \$1.10 per can worth of excise and sales taxes in New Hampshire.

The tax on other tobacco products such as new modern oral products (e.g. nicotine pouches), would rise from 43% to 65% of the “cost price.” This would essentially equalize the excise tax on each product, although New Hampshire would still have a sales tax advantage. In Massachusetts, where consumers have avoided that state’s flavor ban by crossing borders, shoppers would likely look to New Hampshire instead of Maine since its tax advantage on these products would cease to exist.

For vapor, New Hampshire has a relatively low \$0.30 per ml tax on closed system vapor products (including disposables) and a small 8% wholesale tax on open system vapes. Mainers could find savings by shopping in New Hampshire. For example, a Mainer could save \$1.74 per milliliter in taxes on closed system vapes, and \$6.84 in excise taxes on a 100 ml bottle of e-liquid for open systems.

These tax hikes are projected to cost Maine 11% of its smokeless tobacco sales volume and 13% of its vapor volume. The retail smokeless product loss is estimated at \$5.9 million, and the retail vapor loss at \$10.8. Maine’s retailers can expect a total loss of \$16.7 million.

⁵ The proposed tax effects tobacco products other than smokeless tobacco (moist snuff, chewing tobacco, and modern oral products) and vapor products, but analysis of those products is beyond our scope.

⁶ Estimated based on industry shipment data. New modern oral products are non-combustible nicotine products that do not contain tobacco and are consumed orally. An example would be nicotine pouches such as Velo, on!, or Zyn.

⁷ Closed system vapes use a pre-filled cartridge or pod of e-liquid which is either recharged by replacing the cartridge or is a one-use disposable. Open systems can be refilled by the consumer, who typically purchases the e-liquid in larger quantities; 100 ml pods for such a system are typical.