

New Data on Cigarette Smuggling Released

New York still the top smuggling state, Michigan ranked 15th



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MIDLAND, Mich. — The Mackinac for Public Policy released its [annual update](#) on cigarette tax evasion and avoidance among U.S. states. The report estimates the percentage of cigarette consumption that can be attributed to smuggling.

Using data from 2018, the most recent year available, New York continues to have the top in-bound smuggling rate in the nation, with over 53% of all cigarettes consumed smuggled in from elsewhere. California was close behind at 48%, followed by Washington (40%), New Mexico (36%) and Minnesota (36%). The largest shifts include Rhode Island, which leapt from the 18th highest smuggling rate in the nation to eighth place, and Connecticut, which moved from 11th place to seventh.

Michigan ranks 15th in the nation, with a net smuggling rate just below 20%. That total would be higher, but cigarettes are also smuggled out to Canada. The state's smuggling rate is down from more than 34% since the first study was published in 2008, which employed data from 2006. This is likely due to the fact that Ohio and Wisconsin raised their excise tax in the intervening years, which gives Michiganders less reason to casually smuggle, and an overall decline in smoking rates. The latest model shows that the majority of tax evasion comes from individual consumers, rather than large scale, longer-haul shipments.

If no smuggling existed, Michigan's treasury would bring in \$207.4 million more in cigarette tax revenue than it currently does. By contrast, the Indiana treasury made almost \$60 million as a direct result of smuggling as Illinois- and Michigan-based and other buyers made the Hoosier state their source state for cheaper smokes.

Lawmakers across the country are considering raising cigarette taxes in an effort to recover revenue lost from the COVID-19 coronavirus pandemic. However, state policymakers should remember that increased excise taxes on cigarettes would likely increase cigarette smuggling, which could actually lower state revenue.

"Some lawmakers may be tempted to raise Michigan's cigarette tax to help backfill the state's current budget hole," said Michael LaFaive, senior director of fiscal policy at the Mackinac Center and a co-author of the study. "They should not. Smuggling and other lawlessness would increase and it would likely just further enrich lawbreakers, Indiana retailers and their state treasury."

The study was co-authored by Todd Nesbit of Ball State University and adjunct scholar with the Mackinac Center, and Ulrik Boeson, senior policy analyst with the Washington D.C.-based Tax Foundation.

View the updated research [here](#) and an [interactive map here](#).

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