



# DOAA

Georgia Department  
of Audits & Accounts

**Greg S. Griffin**  
State Auditor

February 5, 2025

Honorable Sam Park  
State Representative  
609 Coverdell Legislative Office Building  
Atlanta, GA 30334

SUBJECT: Fiscal Note  
House Bill (LC 59 0042)

Dear Representative Park:

The bill would increase the current 37-cent per pack excise tax on cigarettes to \$1.37 in 2026 and to reset the tax annually to the national average tax on cigarettes starting on January 1, 2027. The bill is assumed to become effective on January 1, 2026.

### Impact on State Revenue

Georgia State University’s Fiscal Research Center (FRC) estimated that the bill would increase state revenue as shown in Table 1. The analysis includes a low and high revenue estimate based on the bill’s expected impact on the consumer behavior (i.e., purchases of cigarettes). A higher behavioral response would mean a larger drop in cigarette sales and a lower state revenue gain. The appendix provides details of the analysis.

**Table 1. Estimated State Revenue Effects of LC 59 0042**

(\$ millions)	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030
Low Case (High-Behavioral Response)	\$145.4	\$354.9	\$417.5	\$413.5	\$407.9
High Case (Low-Behavioral Response)	\$149.0	\$393.6	\$487.6	\$482.3	\$475.0

### Impact on State Expenditures

The Department of Revenue would be able to implement the bill with existing resources.

Respectfully,

Greg S. Griffin  
State Auditor

Richard Dunn, Director  
Office of Planning and Budget

GSG/RD/mt

### **Analysis by the Fiscal Research Center**

Per capita consumption of cigarettes has been in decline in Georgia. Recent data show 455 million packs of cigarettes were taxed in Georgia in 2017, representing 43.6 annual packs per Georgia resident. In 2023, the most recent full year of data available, 359 million packs were taxed or 32.5 annual packs per capita, representing a decline in per capita consumption of 3.9 percent per year. Existing trends for cigarette consumption per capita are assumed to continue.

In addition to the expected continuation of this decline in tobacco consumption, an increase in excise tax rates would be expected to have behavioral effects due to higher retail prices, as more people reduce the amounts they consume, quit outright, or switch to alternatives.

Research into cigarette consumption published in the Journal of Health Economics in 2021 found that a 1-percent increase in the final price of a pack of cigarettes results in a 0.98-percent decline, on average, in the quantity of cigarettes purchased (a -0.98 price elasticity). Other research published in 2022 in Tobacco Prevention & Cessation found that a 1-percent increase in the final price of a pack of cigarettes predicted a reduction in the quantity between 0.4 and 0.6 percent. Research published in the Journal of Health Economics in 2022 and 2023 found lower price elasticities for cigarettes, -0.4 and -0.3, respectively. These findings guide assumptions as to how high or low the behavioral response could be to the tax changes proposed in this bill.

The revenue impact estimates of the proposed changes are based on the following data and assumptions:

- Based on the prevailing literature on the price elasticity of cigarettes, the high behavioral response estimates assume a -0.9 long-run price elasticity after the first year of higher prices; the first-year response is assumed to be half that, a price elasticity of -0.45. The low behavioral response estimates assume a price elasticity of -0.3 throughout.
- The average state excise tax on a pack of cigarettes at the end of 2024 was \$1.97 per pack according to the Campaign for Tobacco Free Kids. That value was \$1.44 in 2010, an annual growth rate in the average state per pack cigarette tax of 2.25 percent. The estimates assume that trend to continue through 2030 outside of Georgia. Under this proposal the national average would grow slightly faster on average, 2.53 percent per year because of the larger increases in Georgia in 2026–27.
- Calculations based on data from Orzechowski and Walker’s “Tax Burden on Tobacco,” indicated that the final retail price of a pack of cigarettes, inclusive of all existing taxes, was \$6.83 in Georgia in 2017 and \$8.47 in 2024. The estimates assume that this trend, a 3.12 annual percent increase in the final retail price of cigarettes, will continue absent the proposed tax change. The tax rate increases proposed under LC 50 0042 will increase the retail price of cigarettes by 11.1 percent in 2026, a final retail price increase over the historical trend that will grow to 18.4 percent by 2030.

Table 2 details the high- and low-response estimates for cigarette prices and consumption under LC 59 0042, based on these data and assumptions.

**Table 2. Prices and Consumption Under Alternate Behavioral Response Assumptions, 2026–30**

	2026	2027	2028	2029	2030
<b>Cigarette Retail Price Per Pack:</b>					
Current Law and Baseline Trend	\$9.01	\$9.29	\$9.58	\$9.88	\$10.18
Under LC 59 0042	\$10.01	\$11.04	\$11.39	\$11.74	\$12.10
Projected Tax Rate	\$1.37	\$2.12	\$2.19	\$2.24	\$2.29
<b>Cigarette Consumption (millions of packs):</b>					
Baseline	311.3	298.5	286.2	274.2	262.7
High Response, Low Revenue Case	295.8	247.8	237.3	227.6	218.2
Low Response, High Revenue Case	301.0	281.6	269.9	258.7	247.9

Calendar-year baseline, high-response low revenue, and low-response high revenue estimates are detailed in Table 3, based on the consumption and tax rate estimates in Table 2. All consumption and revenue estimates are calendar-year based because the proposed rate changes are assumed to take effect on January 1 of each year. The difference in each revenue scenario and the baseline represents the estimated fiscal impacts, using a 50-50 fiscal split, in Table 1.

**Table 3. Cigarette Tax Revenues Under Alternate Behavioral Response Assumptions, 2025–29**

(\$ millions)	2025	2026	2027	2028	2029
Current Law and Baseline Trend	\$115.2	\$110.5	\$105.9	\$101.5	\$97.2
High Response, Low Revenue Case	\$405.2	\$526.4	\$519.0	\$509.0	\$499.0
Low Response, High Revenue Case	\$412.3	\$598.3	\$590.2	\$578.6	\$566.9

The availability of e-cigarettes (vaping) as a close-substitute product and the fact that these products are now taxed in Georgia requires that we also consider potential gains in tax revenues from vaping as taxpayers respond to the increase in cigarette prices by consuming more vapor products.

The estimated revenue impacts from the substitution to vaping products caused by the proposed changes to the taxation of cigarettes are based on the following data and assumptions:

- A recent paper by Cotti et al. in 2022, found that increases in the price of cigarettes led to statistically significant increases in the consumption of vapor products. This is known as a cross-price elasticity where the consumption of one product changes due to the change in the price of a substitute or complimentary product. Based on these findings, we assume a cross-price elasticity of 1.5 in the high-response case after the first year but half that, 0.75, in the first year. For the low-response case, we assume a 0.75 cross-price elasticity for all periods.
- Baseline revenues from the tax on e-cigarettes under current law, whereby vapor products are subject to a 7 percent tax on the wholesale price except in the case of closed-system vapor products, on which the tax is 5 cents per fluid milliliter, are projected as follows:
  - As reported by DOR, taxes on these products generated approximately \$9.96 million in revenues during 2024.
  - Baseline growth assumptions are based on a vaping product sales forecast from Statista for the U.S. market. The forecast calls for growth of 5.67 percent per year between 2024–30. For closed-system product taxes, which again are unit-based, we adjust the Statista sales growth forecast to reflect only expected unit growth.

Table 4 presents baseline revenues from vapor product taxes as well as the gains from substitution from cigarettes to e-cigarettes in response to the cigarette tax increase under the two behavioral-response cases, as discussed above. Combined gains from cigarette and e-cigarette taxes are provided in Table 1.

**Table 4. Consumable Vapor Products Baseline Revenues and Substitution-Effect Gains, 2026–30**

(\$ millions)	2026	2027	2028	2029	2030
Baseline Revenues	\$10.2	\$10.5	\$10.9	\$11.3	\$11.6
<b>Revenue Gains from Substitution Effects:</b>					
High-Behavioral-Response Case	\$0.8	\$3.0	\$3.0	\$3.1	\$3.2
Low-Behavioral-Response Case	\$0.8	\$1.5	\$1.5	\$1.6	\$1.6

For the revenue impacts in Table 1, the revenue gains over the baseline for both behavioral response cases are added to the revenue associated with the substitution-effect gains in Table 4. Then these estimated revenue gains are converted into fiscal years using a 50-50 fiscal split.