

The Incidence of Tobacco Taxation: Evidence from Geographic Micro-Level Data

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Abstract:

This paper uses a recent increase in the state of Wisconsin's tobacco tax as a natural experiment to measure the economic incidence of tobacco taxation. We estimate the economic incidence of tobacco taxation using micro level data on cigarette prices collected from retail locations in Wisconsin and states that share its border. We find that Wisconsin's \$1.00 increase in tobacco tax was over-shifted to consumers; they pay the entire amount of the tax as well as a premium of between \$0.08 and \$0.17 per pack of cigarettes. We use geo-coded data to test if the incidence of the tobacco tax in Wisconsin is different for retail locations near another state's border (where taxation is different). Stores near the Minnesota border (where the tobacco tax is lower after the law change) lose at least 53 percent and at most 71 percent of the premium. Stores near the Michigan border (where the tobacco tax is higher before and after the law change) gain at least 93 percent and as much as 149 percent of the over-shifting premium depending on the distance in question and the econometric specification.