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Memorandum

Date: February 3, 2026

To: Members of the House Finance Committee

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

Subject: Excise Taxes in Sections 3 and 4 of the State Budget

Stance: Neutral; Tax Foundation does not make direct recommendations on legislation

The Rhode Island state budget proposal H7127 includes provisions that would increase tobacco taxes on multiple margins. Specifically, the bill would increase the tax on cigarettes from 225 mills per cigarette (\$4.50 per pack) to 262.5 mills per cigarette (\$5.25 per pack), impose a floor stock tax on cigarettes sold at retail or by a licensed distributor at the rate of \$.0375 per cigarette (\$0.75 per pack), and increase the maximum tax on cigars from \$.50 to \$2.00.

While cigarette tax hikes have increased short-term revenues in the past, as rates grow, they are less likely to generate additional revenue. Rhode Island increased its cigarette excise tax from \$4.25 per pack to \$4.50 per pack in 2024. In 12 months following the tax increase, revenues fell by an estimated \$20 million. Further tax increases are likely to accelerate the revenue decline.

Excise taxes are also a poor policy solution to growing expenditure programs, like health care. This is because revenue needs for government services tend to grow over time, while excise taxes are volatile, and the revenue they bring in tends to decrease over time as the tax base shrinks. Thus, a funding gap ensues.

Cigarette taxes are also regressive. In Rhode Island, households in the lowest quintile face an effective tax rate that is 17 times the rate faced by households in the top income quintiles.

Effective Rhode Island Cigarette Tax Rates Across Income Groups

Income Group	Effective Tax Rate
0% to 20%	15.9%
20% to 40%	5.2%
40% to 60%	3.0%
60% to 80%	1.9%
80% to 100%	0.9%

Source: Adam Hoffer, "Compare Tobacco Tax Data in Your State," Tax Foundation, Nov. 6, 2025, <https://taxfoundation.org/data/all/state/tobacco-tax-data-tool/>.

On cigars subject to the per-cigar cap, Tax Foundation research shows that per-cigar caps play an important role in preventing excessive and distortive taxation. Most states that tax cigars at an ad valorem (percentage-of-price) rate apply a cap to avoid penalizing higher-priced, premium cigars at levels far above those applied to other tobacco products. As of 2024, according to Tax Foundation research, most cigar-taxing states use a cap, and many set it at or below Rhode Island's current 50-cent level. These caps recognize that cigars are used differently than cigarettes, are consumed far less frequently, and are not substitutes for daily smoking.

Raising Rhode Island's cap to \$2.00 moves the state further away from national norms and risks imposing a disproportionate burden on a niche product without clear public-health gains.

Legislatures are charged with the difficult task of striking the right balance between reducing the harm caused by smoking, raising enough revenue to fund smoking cessation and other public health programs, and maintaining a legal, well-regulated marketplace where participants can safely transact. 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.