



*A Policy Research Partnership
to Reduce Youth Substance Use*

Supported by
The Robert Wood Johnson Foundation

Tobacco Taxation

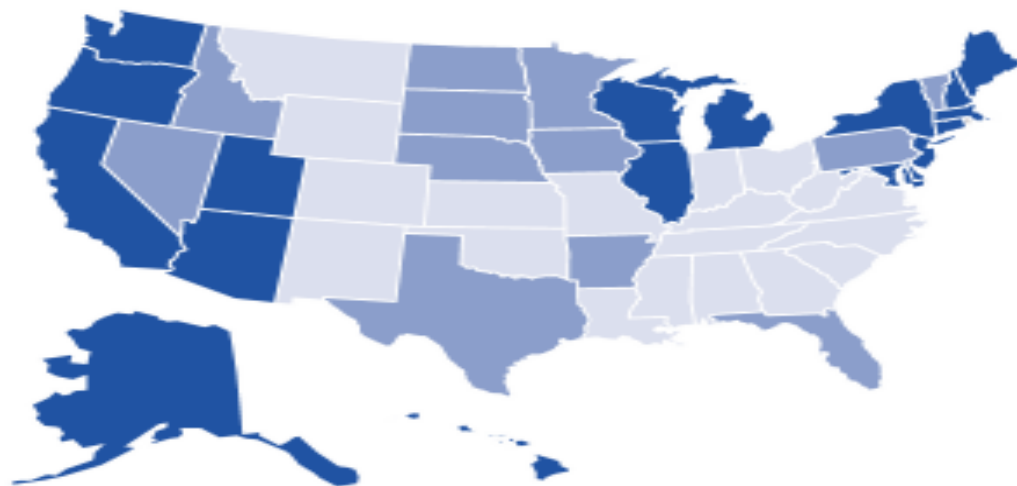
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and the National Cancer Institute*



State Cigarette Excise Taxes

January, 2001

Ranked by State Excise Taxes per Pack

Average State Tax = \$0.419

\$0.50+ HIGH

1.11	New York
1.00	Alaska
1.00	Hawaii
.87	California
.825	Washington
.80	New Jersey
.76	Massachusetts
.75	Michigan
.74	Maine
.71	Rhode Island
.68	Oregon
.66	Maryland
.65	District of Columbia
.59	Wisconsin
.58	Arizona
.58	Illinois
.52	New Hampshire
.515	Utah
.50	Connecticut

\$0.25-.49 MED

.48	Minnesota
.44	North Dakota
.44	Vermont
.41	Texas
.36	Iowa
.35	Nevada
.34	Nebraska
.339	Florida
.33	South Dakota
.315	Arkansas
.31	Pennsylvania
.28	Idaho

< \$0.25 LOW

.24	Delaware
.24	Kansas
.24	Louisiana
.24	Ohio
.23	Oklahoma
.21	New Mexico
.20	Colorado
.18	Mississippi
.18	Montana
.17	Missouri
.17	West Virginia
.165	Alabama
.155	Indiana
.13	Tennessee
.12	Wyoming
.12	Georgia
.07	South Carolina
.05	North Carolina
.03	Kentucky
.025	Virginia

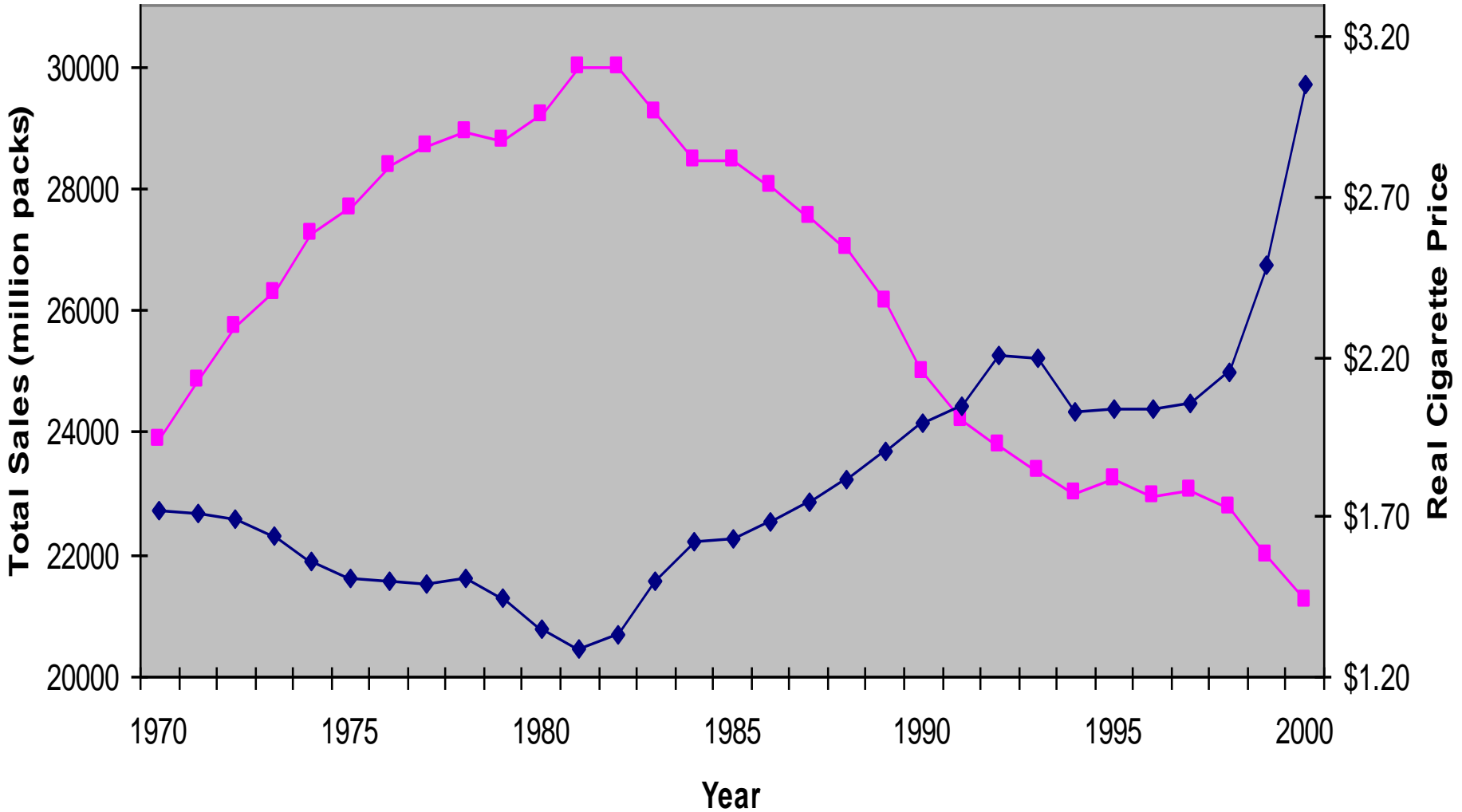
Recent Tax Increases

- Wisconsin up 18 cents per pack to 77 cents, effective October 1, 2001
- Rhode Island (up 29 cents) and Maine (up 26 cents) to \$1.00 per pack as part of coordinated efforts to Raise cigarette taxes in six New England states
- Washington voters recently approved Initiative 773 raising the state cigarette excise tax to \$1.425 per pack
 - New York, most recently, raised its tax 39 cents, adding to 2000 increase of 55 cents, making the tax of \$1.50 per pack the highest in the country
 - Many of the most recent tax increases earmark most of the new revenues generated for health related programs, including expanded public health insurance programs and comprehensive tobacco control programs

Tobacco Taxes and Tobacco Use

- Higher taxes induce quitting, prevent relapse, reduce consumption and prevent starting.
- Estimates indicate that 10% rise in price reduces overall smoking by about 4%
- About half of impact of price increases is on smoking prevalence
- Recent estimates for young adult smokers indicate that 10% price rise would raise probability of quitting smoking by over 3%
- Because of addictive nature of smoking, long term effects of tax and price increases are larger

Total Cigarette Sales and Cigarette Prices, 1970-2000



—■— Cigarette Sales (million packs) —◆— Real Cigarette Price



Lower SES populations are more price responsive

- **Growing international evidence shows that cigarette smoking is most price responsive in lowest income countries**
- **Evidence from U.S. and U.K. shows that cigarette price increases have greatest impact on smoking among lowest income and least educated populations**
 - **In U.S., for example, estimates indicate that smoking in households below median income level about 70% more responsive to price than those above median income level**

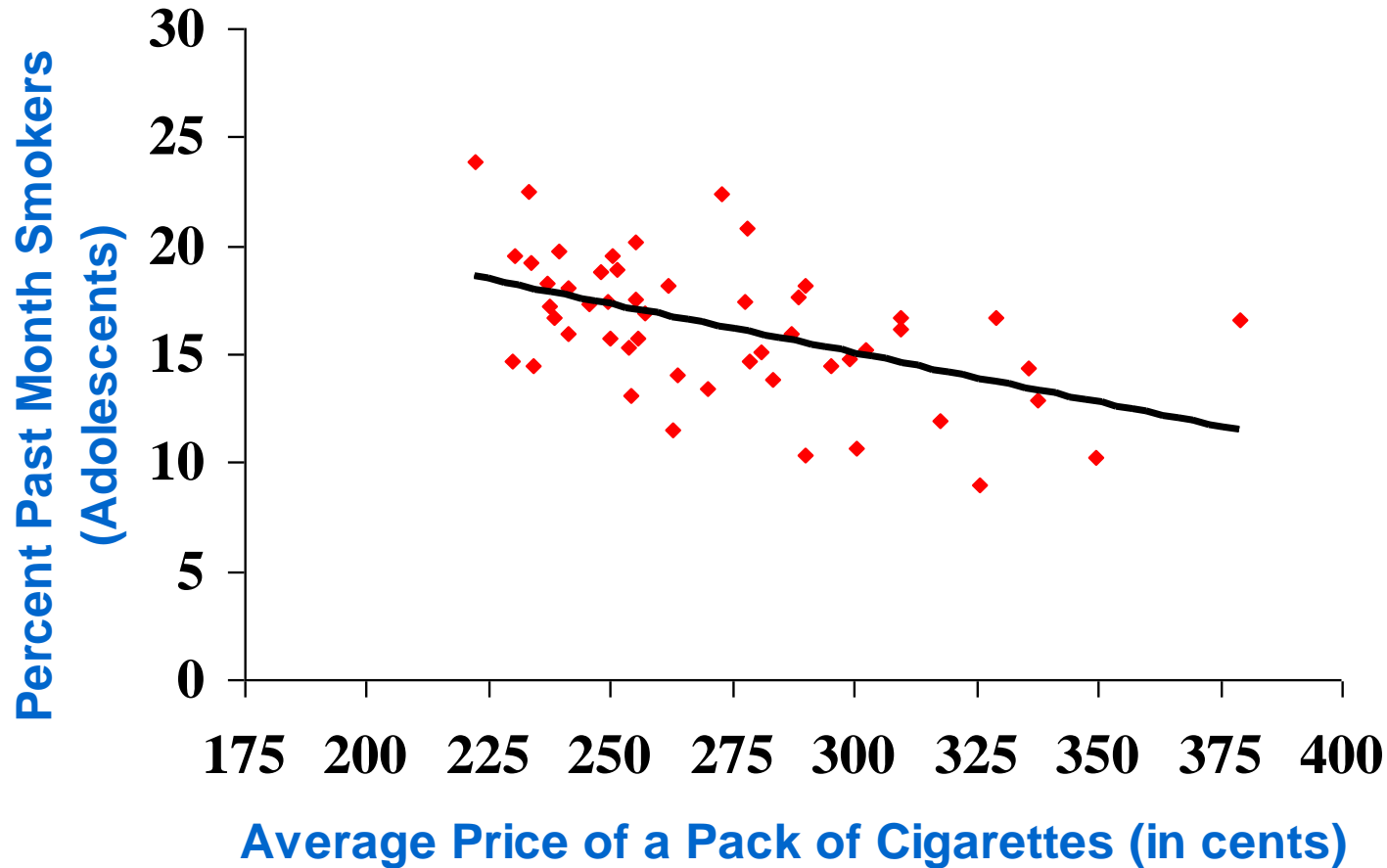
Implies tax increases may be progressive

Young people more price responsive

- **Economic theory suggests several reasons, including lower income, peer influences, shorter smoking histories, and greater discounting of future**
- **Evidence from U.S. suggests that youth are up to three times more sensitive to price than adults while young adults are about twice as price sensitive**
 - **Recent studies conclude that greatest impact of price is in preventing transitions from experimental smoking to more regular smoking**

Because kids are highly price sensitive and 90 percent of smokers start as teens, higher taxes can sharply reduce smoking in the long run

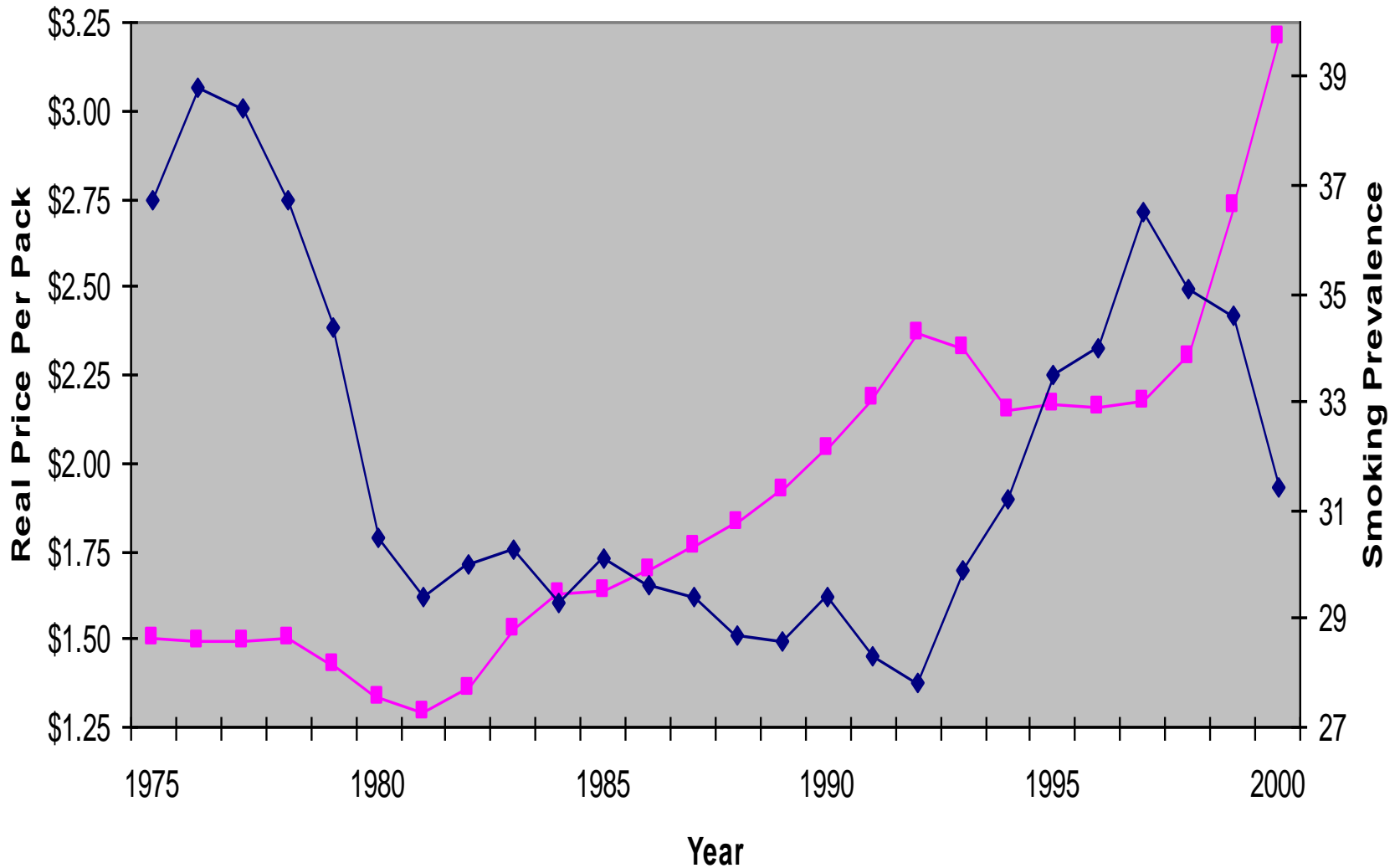
Cigarette Smoking Among Youth by the Average Price of a Pack of Cigarettes in 50 States and the District of Columbia, 1999



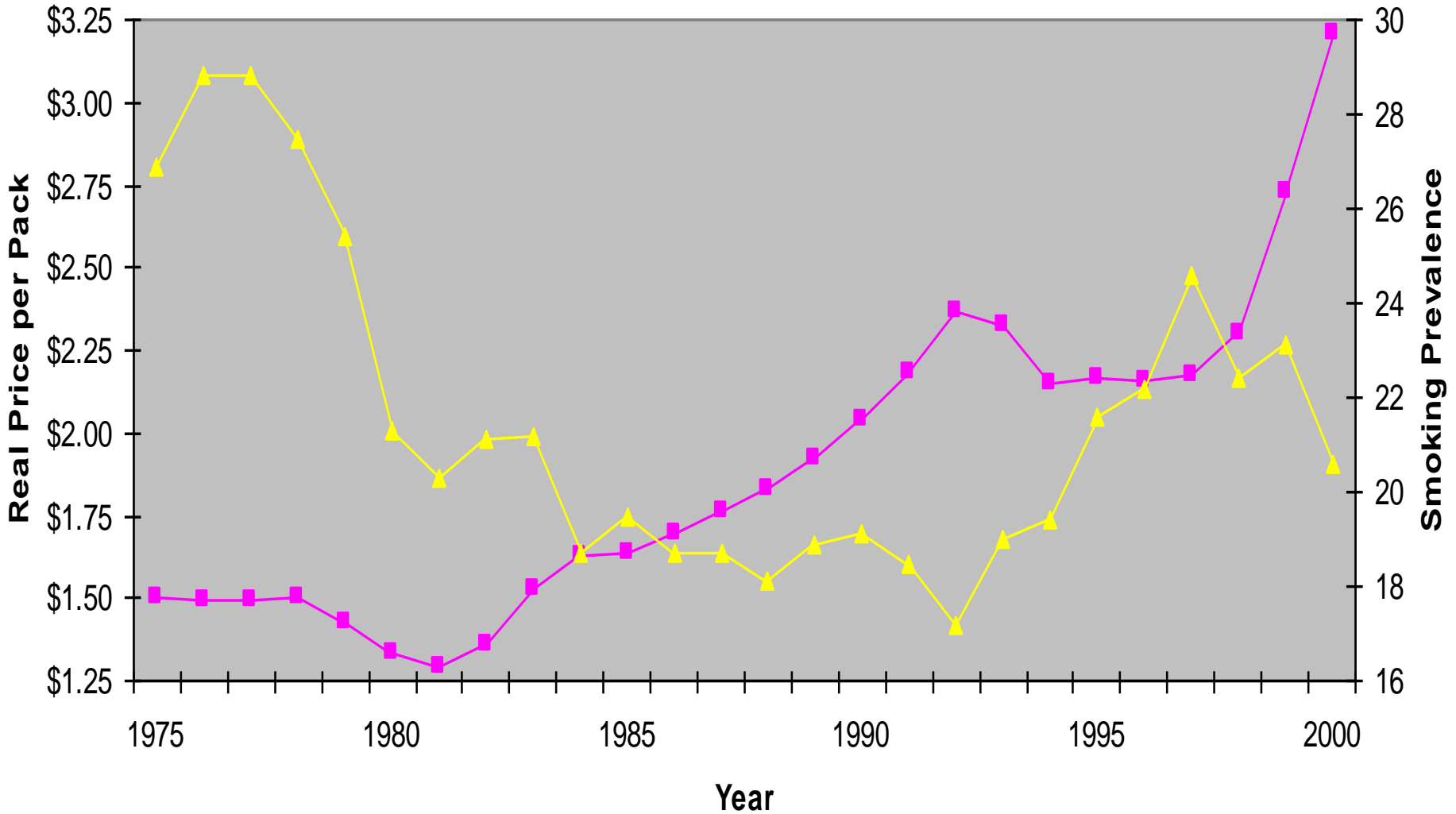
Data: 1999 NHSDA (12-17 year olds); 1999 *Tax Burden On Tobacco*

Source: *Giovino, et al., 2001*

12th Grade 30 Day Smoking Prevalence and Price



12th Grade Daily Smoking Prevalence and Price



CIGARETTE PRICES AND HEALTH

According to a study conducted by Pacific Institute for Research and Evaluation and the Roswell Park Cancer Institute:

- An increase of \$1 in the 1998 cigarette excise tax, indexed for inflation, would result in 2.3 million fewer smoking-attributable deaths over the projected 40-year period the study measures.
- The greatest benefit from the tax hike would be to youth smokers who are, as a group, the most sensitive to price fluctuations, projecting that a \$1 cigarette tax hike would immediately decrease youth smoking by 30 percent while reducing overall smoking rates by 11 percent.

Myths About Impact of Tobacco Taxation

- **REVENUE LOSSES?**

Revenues actually rise with taxes, particularly in lowest tax states where taxes comprise relatively low share of prices; average revenue increases from 10% tax increase would exceed 7%

- **JOB LOSSES?**

Temporary, minimal, and gradual; most state/regions would benefit in short and long run from the reduced tobacco sales resulting from higher tobacco taxes as money once spent on cigarettes is spent on other goods and service.

- **POSSIBLE SMUGGLING?**

Generally overstated; appropriate solution is to crack down on criminal activity, not forego the benefits of higher tobacco taxes.

- **COST TO INDIVIDUALS, ESPECIALLY THE POOR?**

Partially offset by lower consumption; can be offset by using additional tax revenues to finance programs targeting low-income populations

NEW YORK: \$1.11 Per Pack

Preliminary Findings on the Impact of March 2000 55-Cent Increase in Cigarette Excise Tax

- **Cigarette Price Increases**
NY: Marlboro- \$1.00 (30.7%); Newport - \$1.00 (31.0%)
US: Marlboro - 33 cents (11.5%); Newport 31 cents (10.2%)

- **Cigarette Sales**

**Sales have dropped about 20 percent since the increase.
Cigarette tax revenues up sharply**

- **Youth Smoking Prevalence**

(NY matched schools, after 4/1; US all schools after 4/1)

8th Grade - NY: -17.8%; US: - 11.2%

10th Grade - NY: -18.9%; US: -1.0%

CALIFORNIA: 87-Cents Per Pack

California's tobacco control program began in January 1989, when the excise tax was increased from \$0.10 to \$.35 per pack of cigarettes. On November 3, 1998 California voters approved Proposition 10, a measure that increased the state tax on cigarettes by 50 cents per pack starting January 1, 1999, to a total of 87 cents tax per pack. The increase made California's tax per pack of cigarettes the fourth highest amongst the states - only New York's, Hawaii's, and Alaska's taxes are greater.

Initially, Consumption Decreased Rapidly

Initially, following the 1989 excise tax increase, consumption decreased rapidly.

Further Decline Throughout the 1990's

Overall tobacco use in California declined throughout the 1990s at a rate two or three times faster than that in the rest of the country. Between 1988 and 1999, per capita cigarette use in California declined by almost 50%, while in the rest of the country it declined by only about 20%.

Prevalence Among Youth Declined

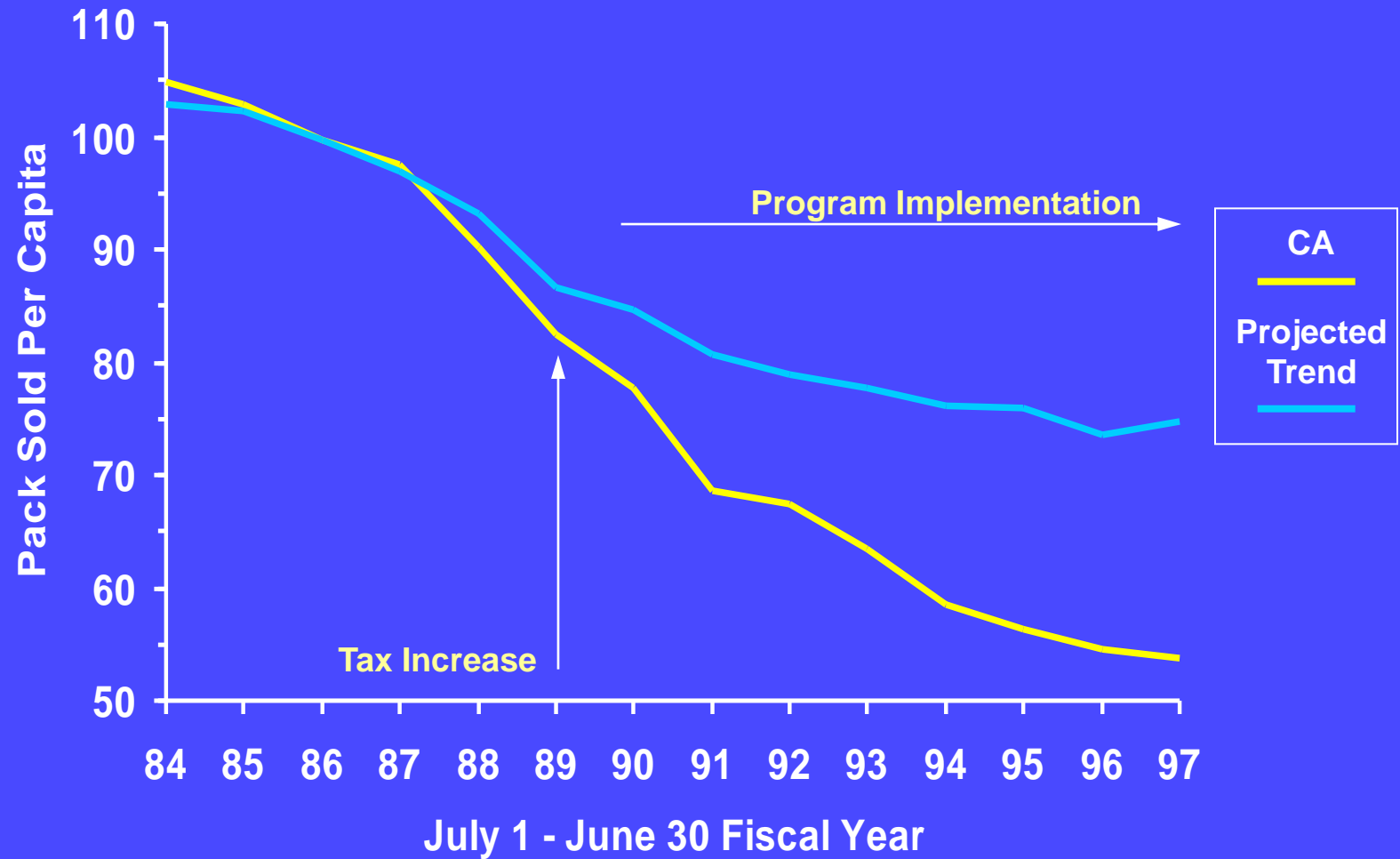
Between 1995 and 1999, the prevalence of cigarette use among youth dropped by 43% in California.

Tobacco-Related Deaths Reduced

By virtue of its duration and intensity, the California program also has the distinction of being the first program to demonstrate a reduction in tobacco-related deaths.

Source: Investment in Tobacco Control: State Highlights 2001; U.S. Department of Health and Human Services, Centers for Disease Control and Prevention, National Center for Chronic Disease prevention and health Promotion, Office on Smoking and Health.

Per Capita Consumption Trends California versus Projected Trend, 1984-1997



Source: CDC

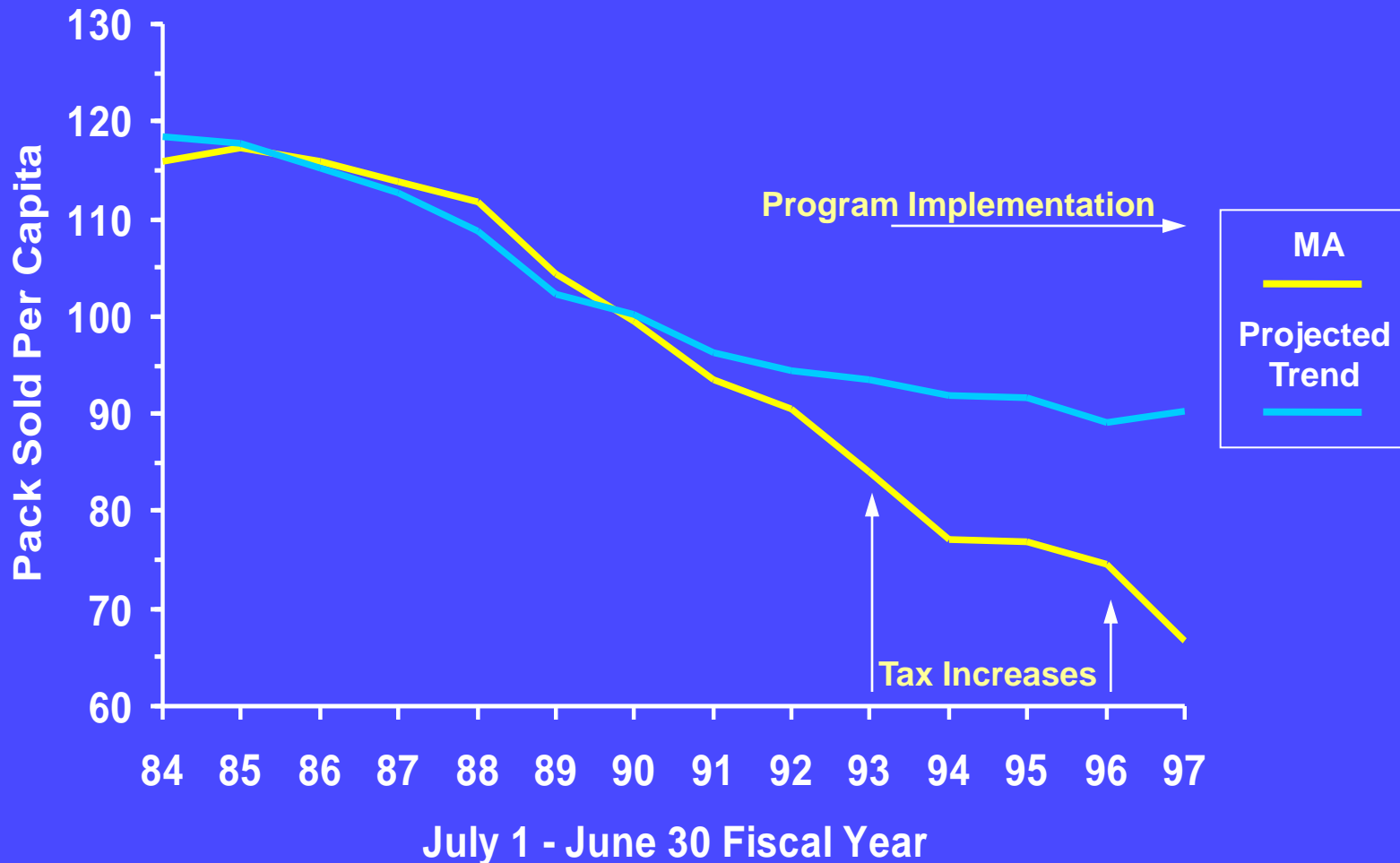
MASSACHUSETTS: 76-Cents Per Pack

The Massachusetts Tobacco Control Program (MTCP) was created through a statewide referendum held in November 1992 and is entirely funded by a tax on cigarettes and smokeless tobacco products. Since its introduction through June 1999, program successes include:

- ☐ Massachusetts has seen more rapid declines than states without tobacco control programs in the overall prevalence of tobacco use among adults.
- ☐ Rates of smoking among Massachusetts youth have declined sharply, with current smoking dropping 70% among 6th graders from 1996 to 1999.
- ☐ Cigarette consumption has fallen by 33%, while consumption in the rest of the country declined just 10%
- ☐ The number of adult smokers has declined
- ☐ Smoking during pregnancy dropped sharply, from 25% to 13%
- ☐ Youth smoking rates in Massachusetts from 1996-1999 have declined at a greater rate than the rest of the country
- ☐ The number of smokers planning to quit has increased, and those who try to quit are more successful.

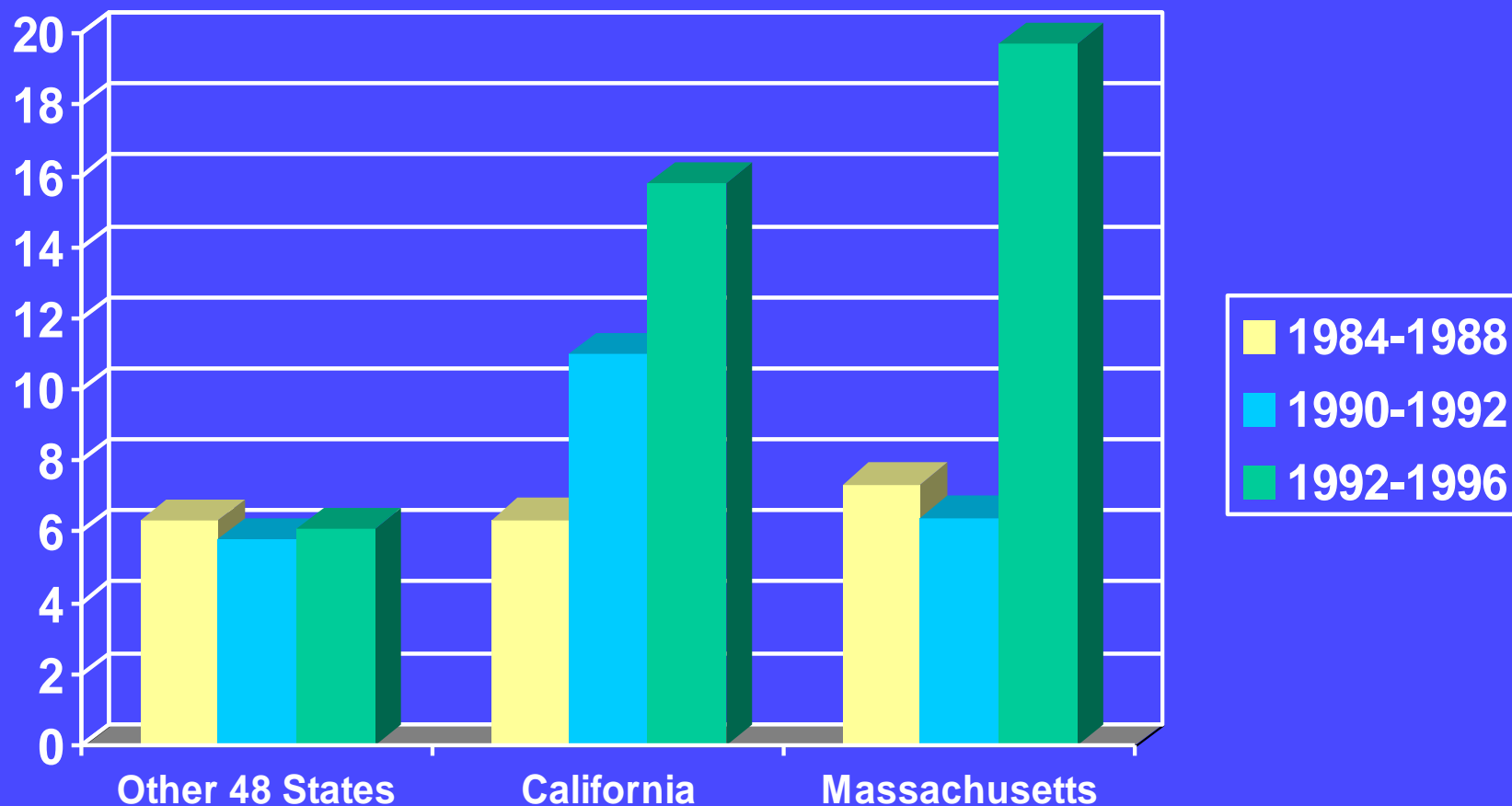
Source: State of Massachusetts, Department of Public Health

Per Capita Consumption Trends Massachusetts versus Projected Trend, 1984-1997



Source: CDC

Change in Per Capita Cigarette Consumption Before and After an Excise Tax Increase and an Antismoking Campaign California & Massachusetts versus Other 48 States, 1986 to 1996



Source: CDC



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Conclusions

Substantial increases in cigarette and other tobacco product prices, including those resulting from significant increases in tobacco excise taxes, lead to large reductions in tobacco use and, in the long run, reduce the public health toll caused by tobacco use.

Earmarking revenues generated from increased tobacco taxes for comprehensive tobacco control programs leads to significant reductions in overall smoking and in the prevalence of youth smoking.

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