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*A Policy Research Partnership
to Reduce Youth Substance Use*

Tobacco Taxation

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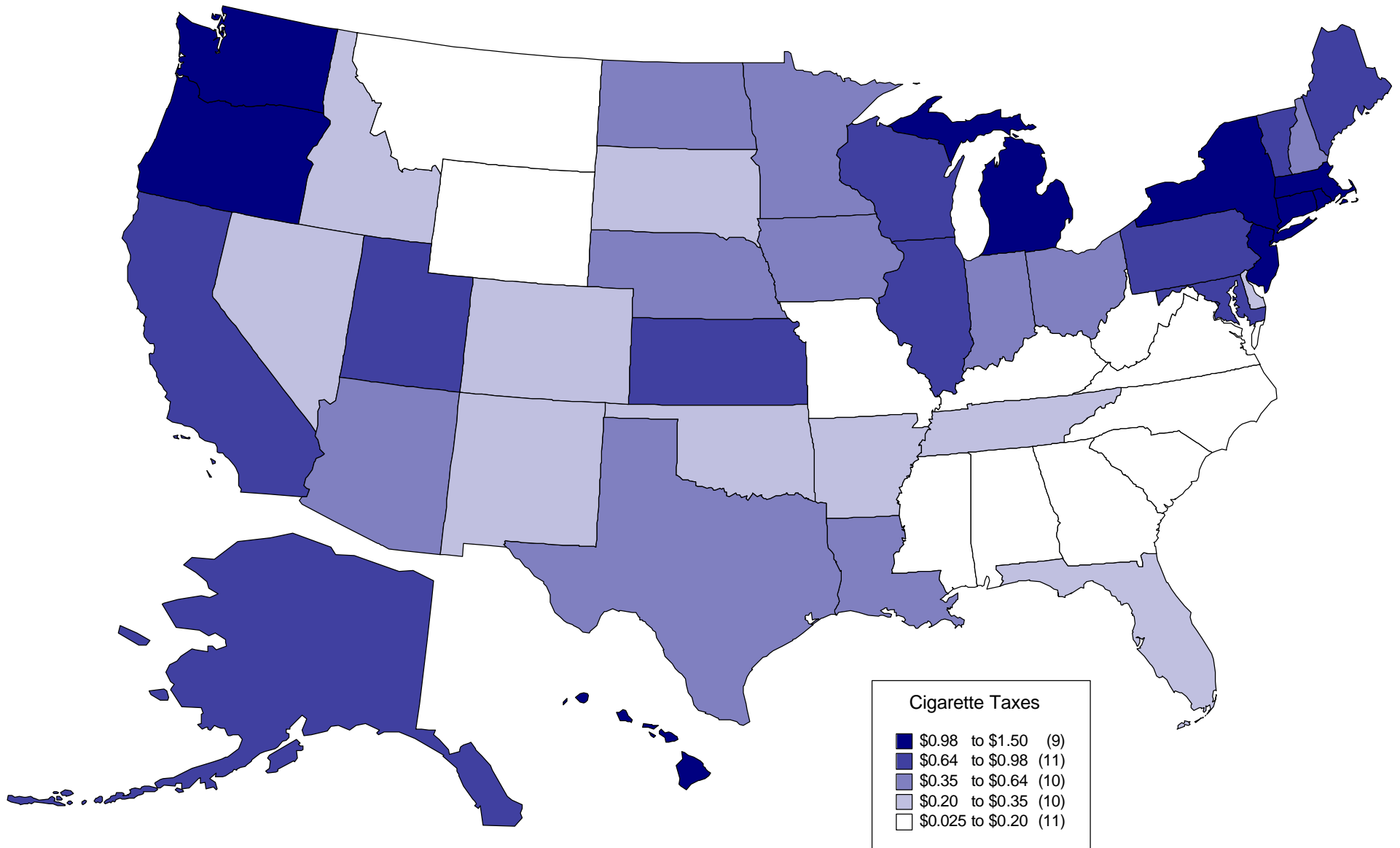
Tobacco industry clearly understands the impact of tobacco taxation

"With regard to taxation, it is clear that in the US, and in most countries in which we operate, tax is becoming a major threat to our existence."

"Of all the concerns, there is one - taxation - that alarms us the most. While marketing restrictions and public and passive smoking (restrictions) do depress volume, in our experience taxation depresses it much more severely. Our concern for taxation is, therefore, central to our thinking...."

Philip Morris, "Smoking and Health Initiatives", 1985

State Cigarette Excise Taxes



Tax rates currently in effect or scheduled to take effect in 2002



Tobacco Taxation in Mississippi

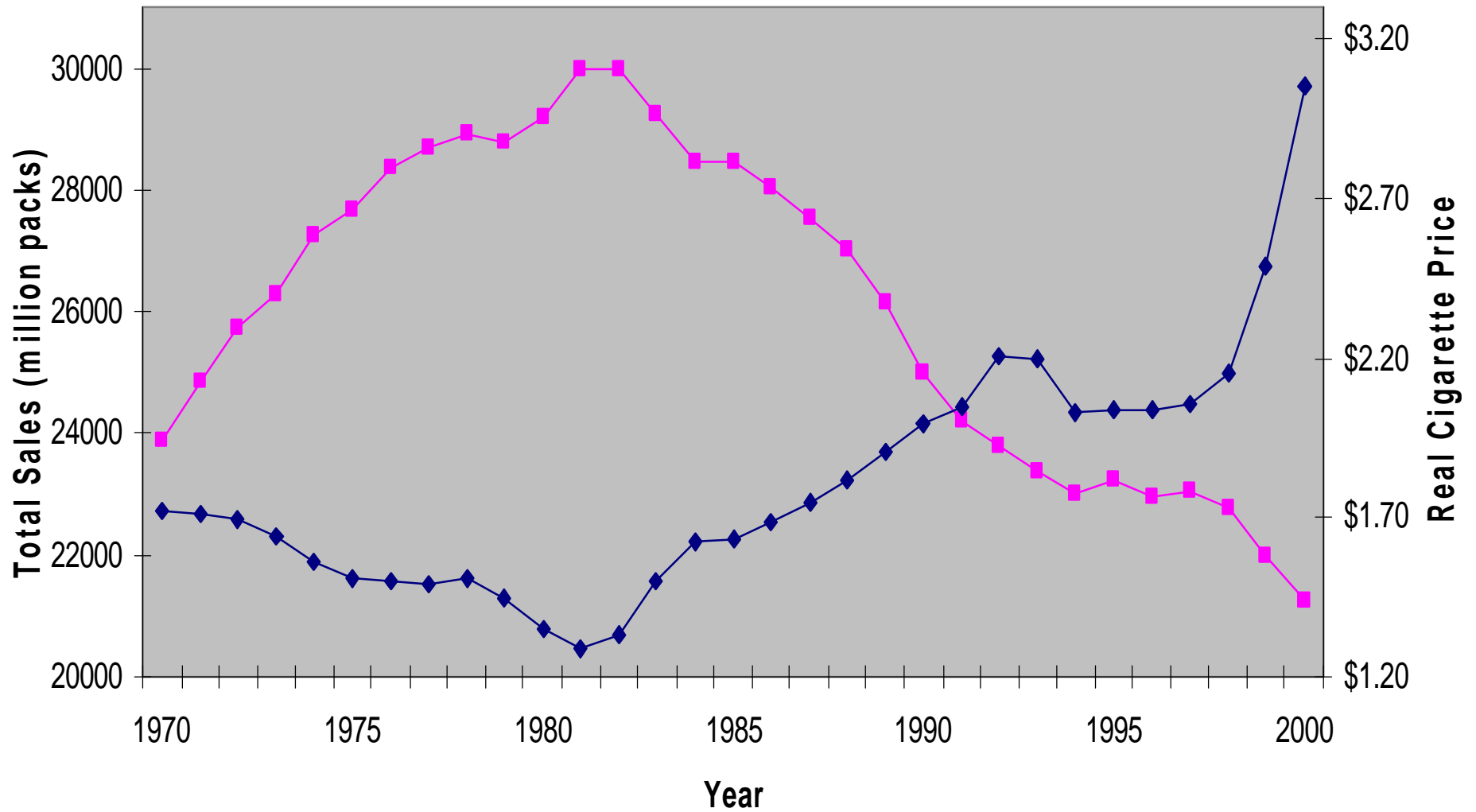
- Cigarette excise tax initially adopted in 1930
 - 4 cents per pack
- Raised infrequently over time
 - Most recent increase was from 11 cents to 18 cents per pack on June 1, 1985
 - Currently 41st among state cigarette taxes
 - About 50 cents below average tax in other non-tobacco growing/manufacturing states
- Inflation has significantly eroded the value of the tax
 - Inflation adjusted value of tax 40 years ago is 48 cents per pack
- Tax on other tobacco products: 15% of manufacturers' price

Tobacco Taxes and Tobacco Use

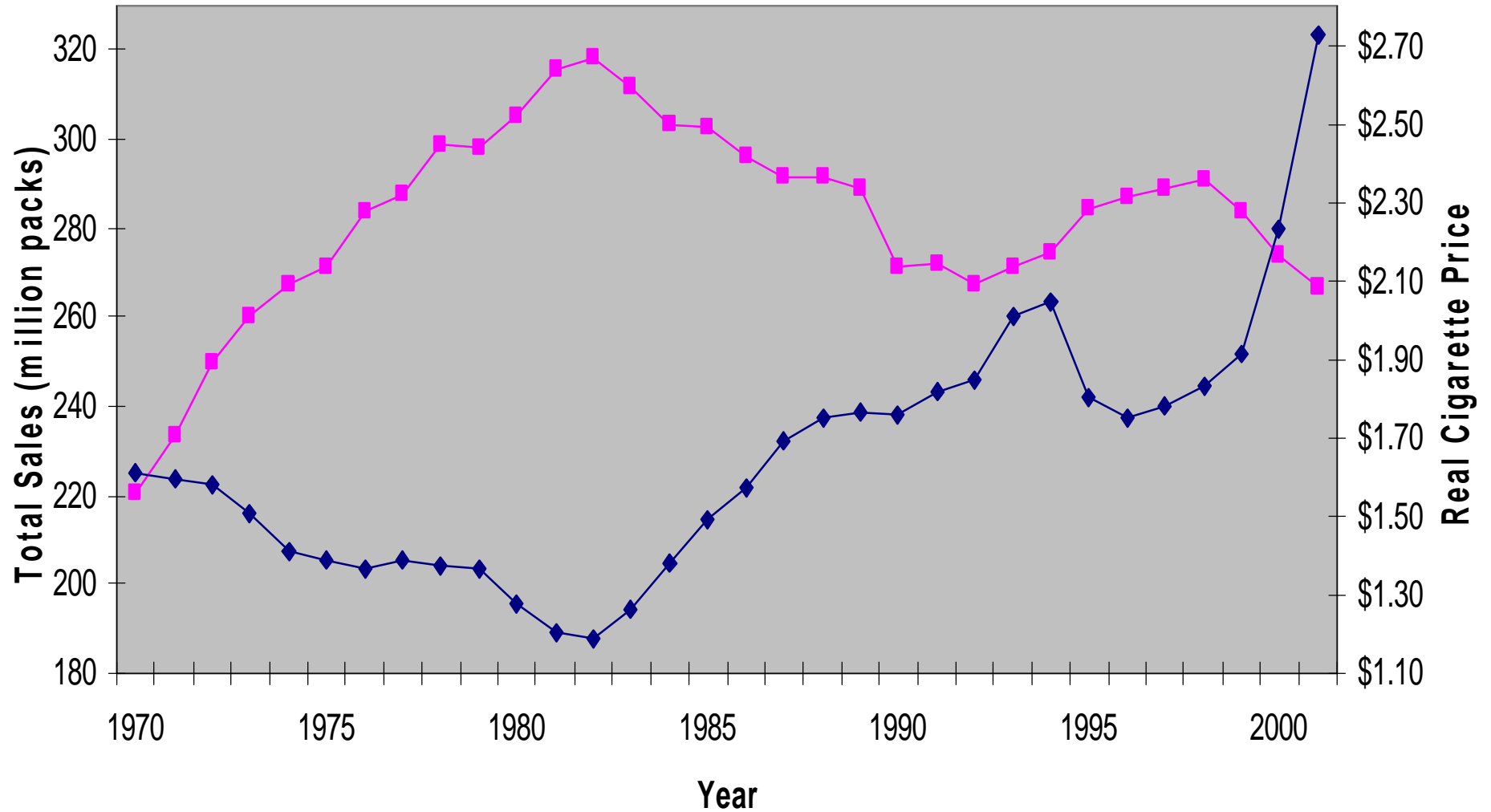
- Higher taxes induce quitting, prevent relapse, reduce consumption and prevent starting.
- Estimates from high-income countries indicate that 10% rise in price reduces overall cigarette consumption by about 4%
- About half of impact of price increases is on smoking prevalence; remainder is on average cigarette consumption among smokers
 - Some evidence of substitution among tobacco products in response to relative price changes

Source: Chaloupka *et al.*, 2000

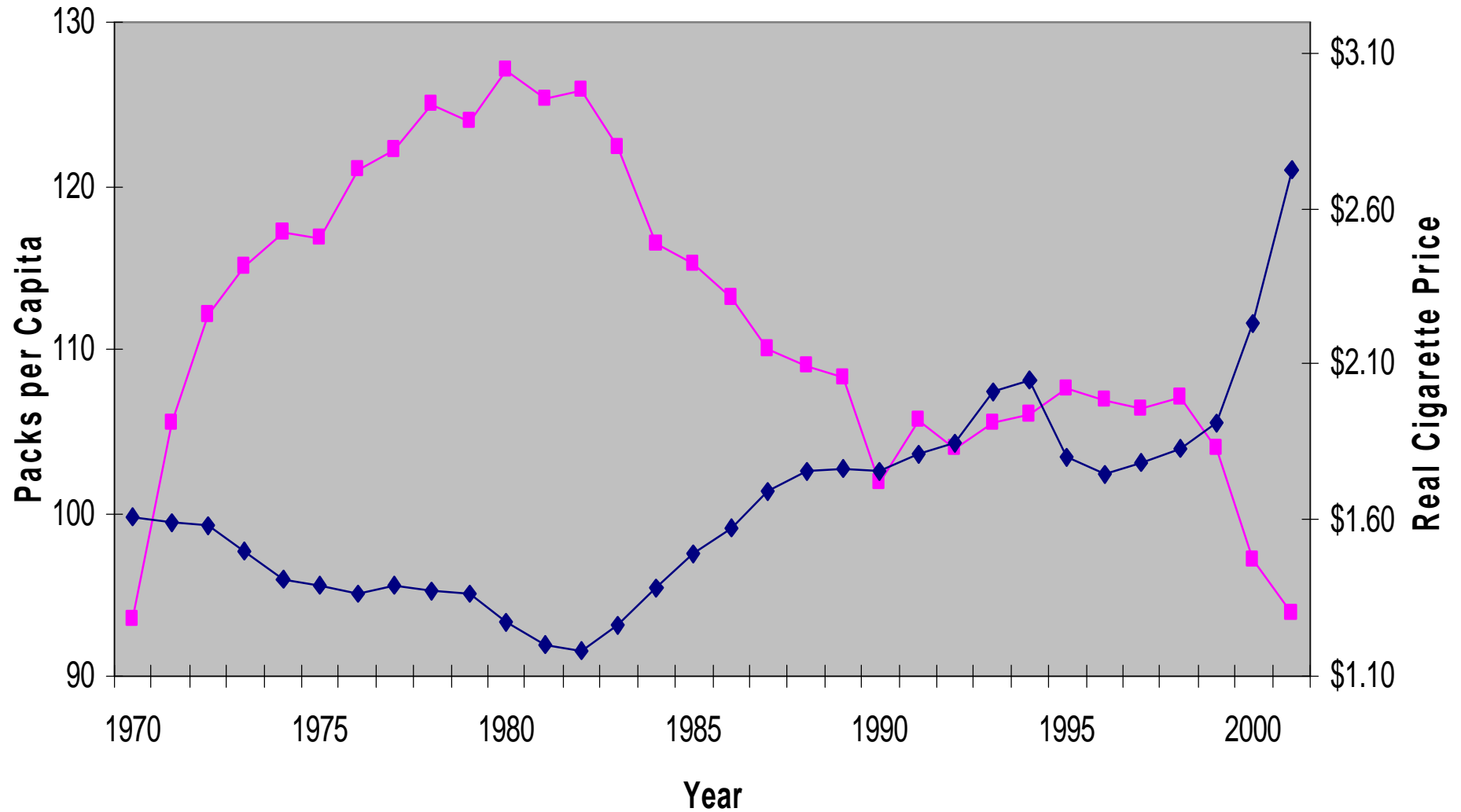
Total Cigarette Sales and Cigarette Prices, 1970-2000



Total Cigarette Sales and Cigarette Prices, Mississippi, 1970-2001



Per Capita Cigarette Sales and Cigarette Price, Mississippi, 1970-2001



Cigarette Prices and Smoking Cessation

- Growing evidence that higher cigarette prices Induce smoking cessation
 - 10% price increase reduces duration of smoking by about 10%
 - 10% price increase raises probability of cessation attempt by 10-12%
 - 10% price increase raises probability of successful cessation by 1-2%

Sources: Douglas, 1999; Tauras and Chaloupka, 2001; Tauras, 2001

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

Sources: Farrelly, et al., 1999; Chaloupka *et al.*, 2000



YOUNG PEOPLE MORE RESPONSIVE TO PRICE INCREASES

- **Proportion of disposable income youth spends on cigarettes likely to exceed that for adults**
- **Peer influences much more important for young smokers than for adult smokers**
- **Young smokers less addicted than adult smokers**
 - **Young people tend to discount the future more heavily than adults**

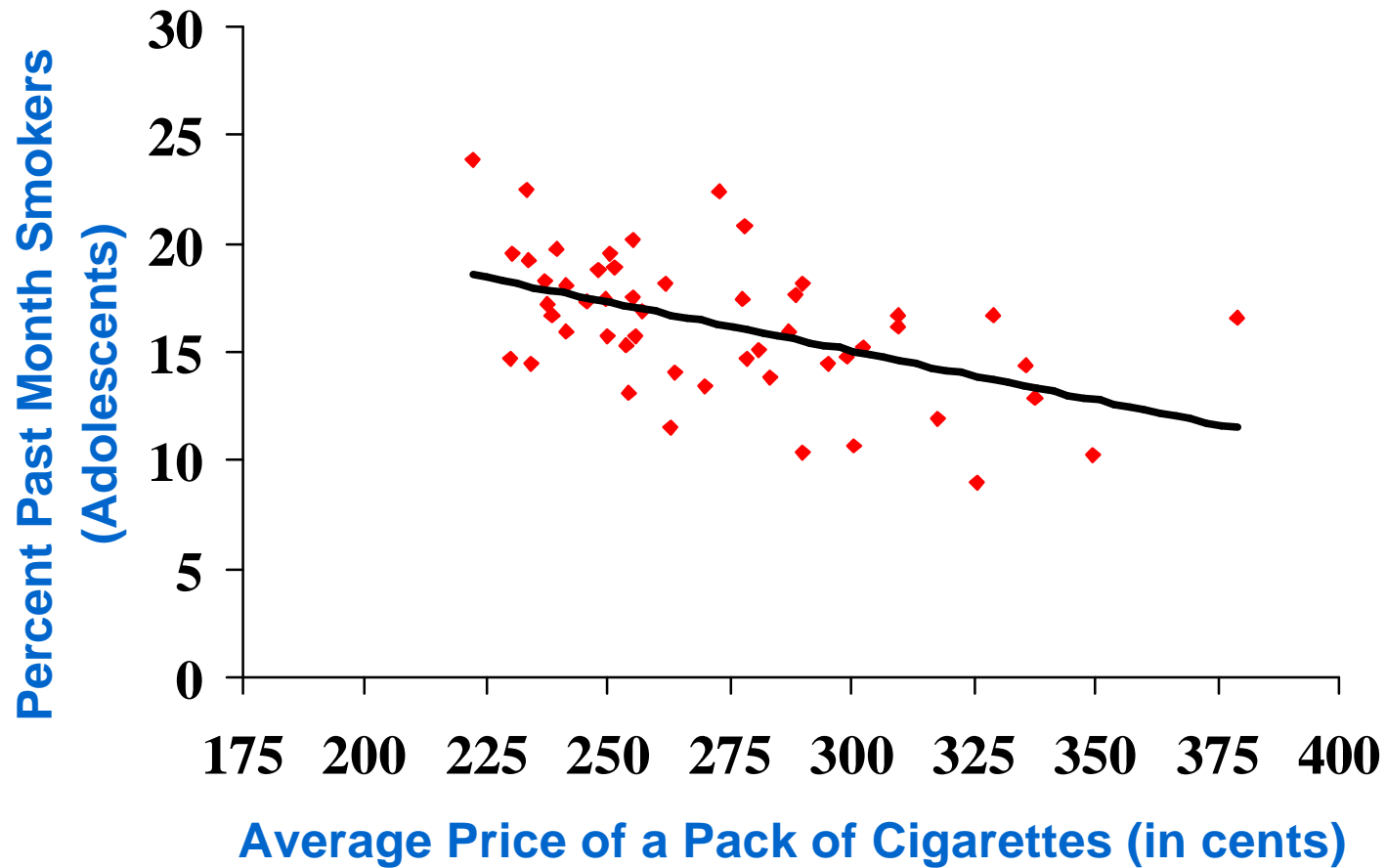
Because kids are highly sensitive to price, and given that 90 percent of smokers start when they are 18 or younger, an increase in excise taxes is one of the best ways to achieve long run reductions in overall smoking

Cigarette Prices And Kids

- A 10% increase in price reduces smoking prevalence among youth by nearly 7%
- A 10% increase in price reduces conditional demand among youth by over 6%
- Higher cigarette prices significantly reduce teens' probability of becoming daily, addicted smokers; prevent moving to later stages of uptake.
- 10% price increase reduces probability of any initiation by about 3%, but reduces probability of daily smoking by nearly 9% and reduces probability of heavy daily smoking by over 10%

Sources: Chaloupka and Grossman, 1996; Tauras, *et al.*, 2001; Ross, *et al.*, 2001

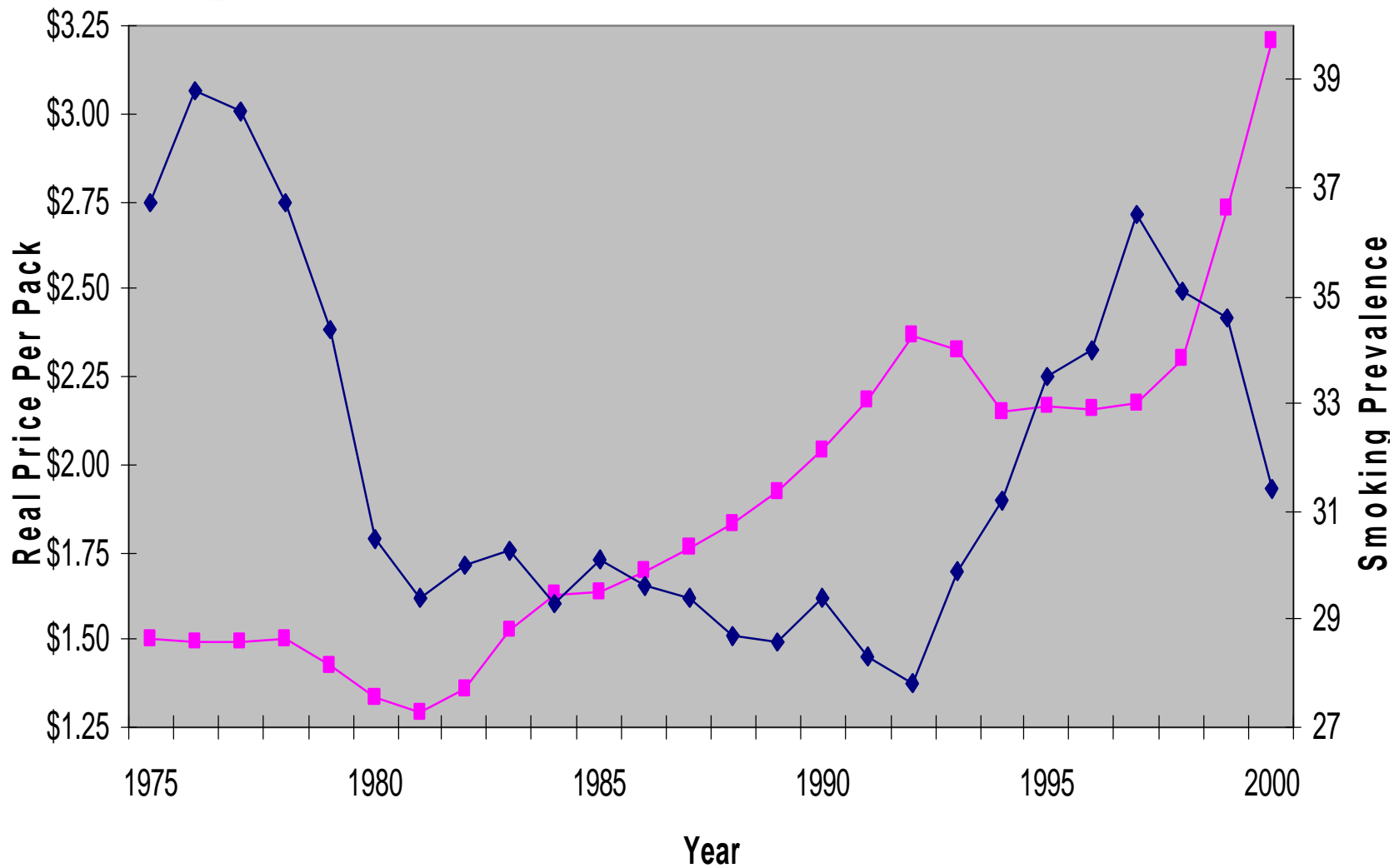
Cigarette Smoking Among Youth by the Average Price of a Pack of Cigarettes in 50 States and the District of Columbia, 1999



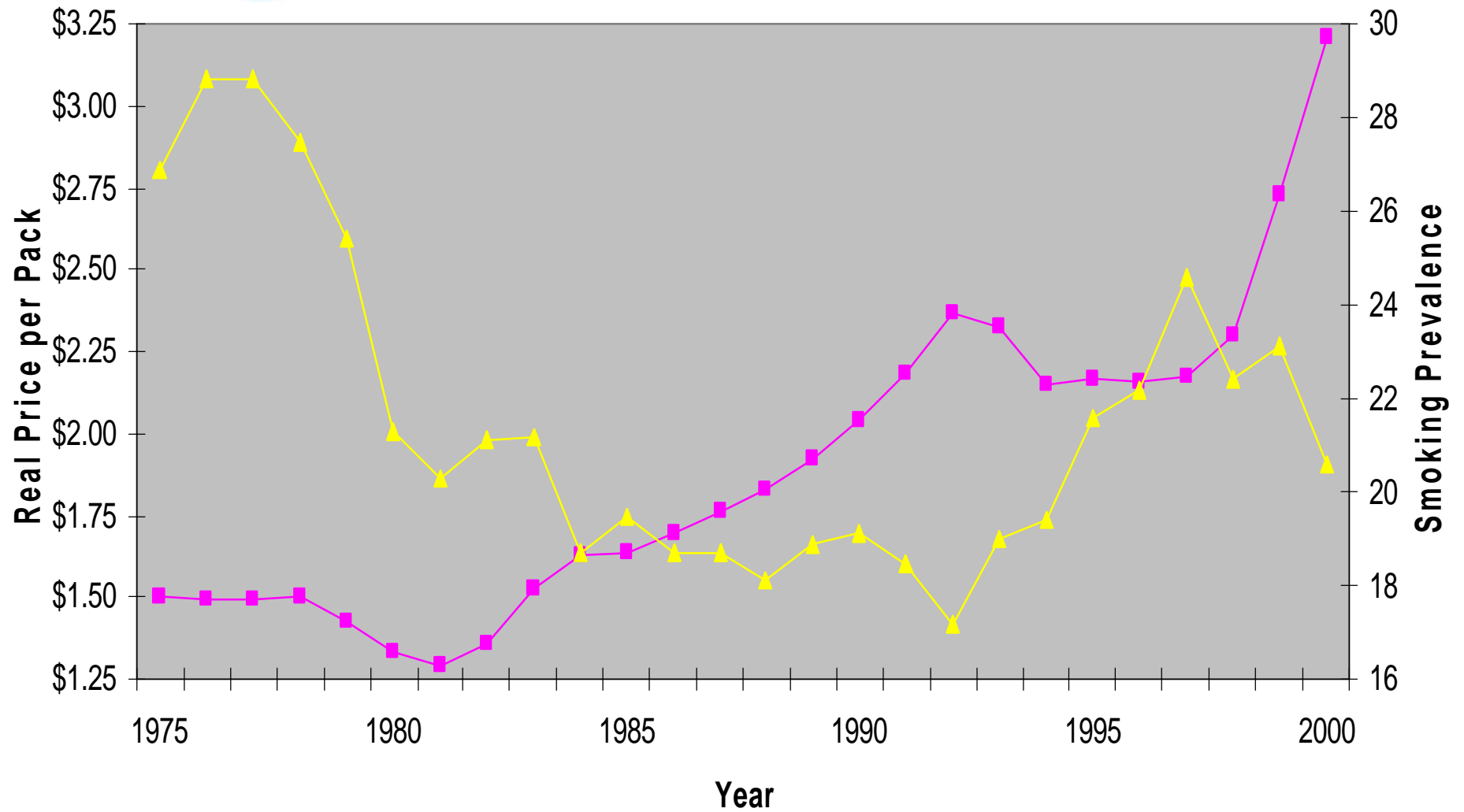
Data: 1999 NHSDA (12-17 year olds); 1999 *Tax Burden On Tobacco*

Source: *Giovino, et al., 2001*

12th Grade 30 Day Smoking Prevalence and Price



12th Grade Daily Smoking Prevalence and Price



Tax Increases and Mississippi

Based on these estimate, a 50-cent per pack increase in the Mississippi cigarette tax would:

- ✍ Reduce cigarette sales by over 15.6 million packs per year
- ✍ Generate almost \$123 million in new revenues
- ✍ Lead over 14,000 current smokers to quit
 - ✍ Prevent more than 19,000 youth from taking up smoking
 - ✍ Prevent approximately 9,200 premature deaths caused by smoking
 - ✍ Generate significant reductions in spending on health care to treat smoking attributable diseases



Myths About Economic Impact of Tobacco Taxation and Tobacco Control

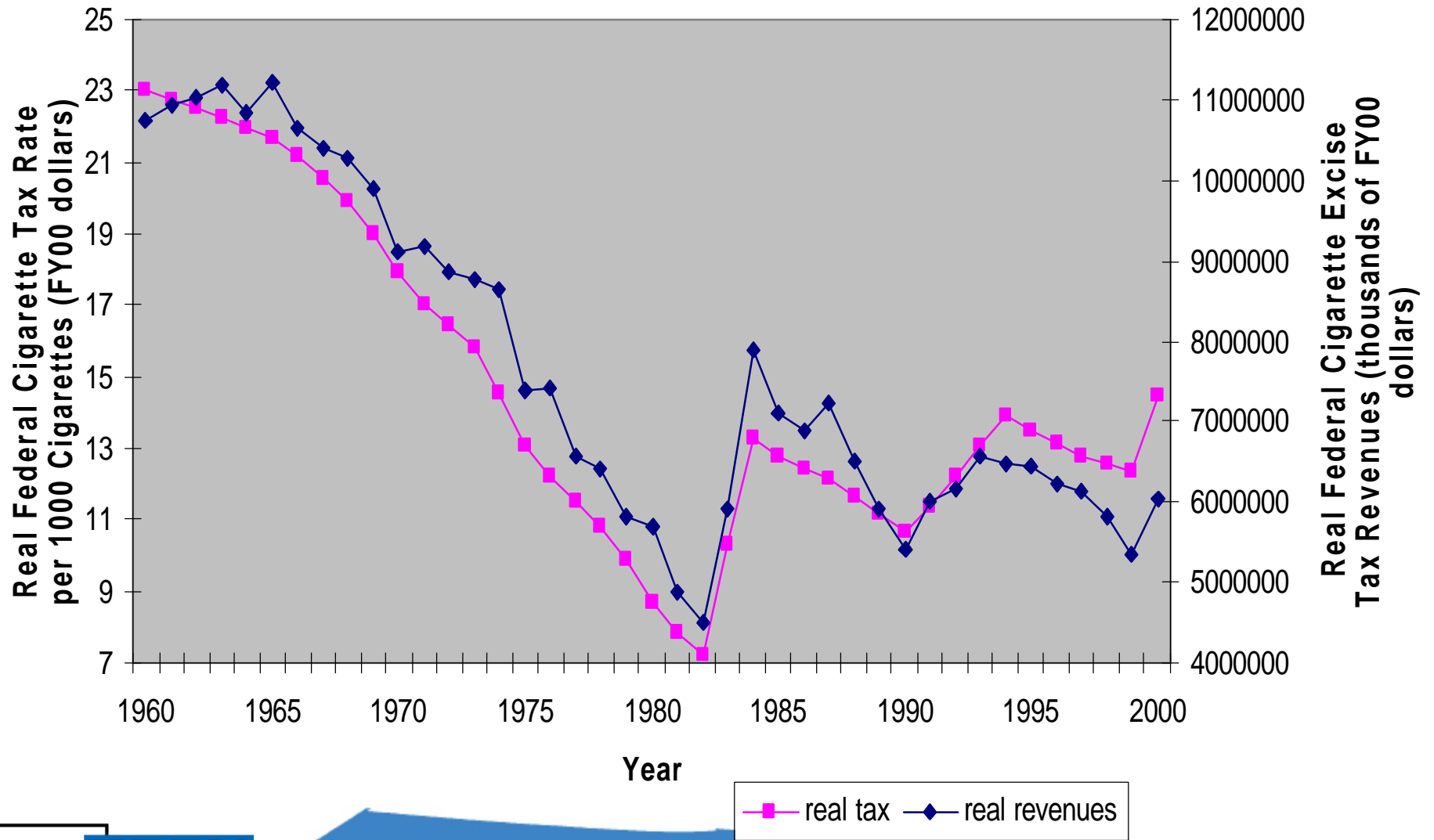
- Impact on Revenues?

Myth: Government revenues will fall as cigarette taxes rise, since people buy fewer cigarettes

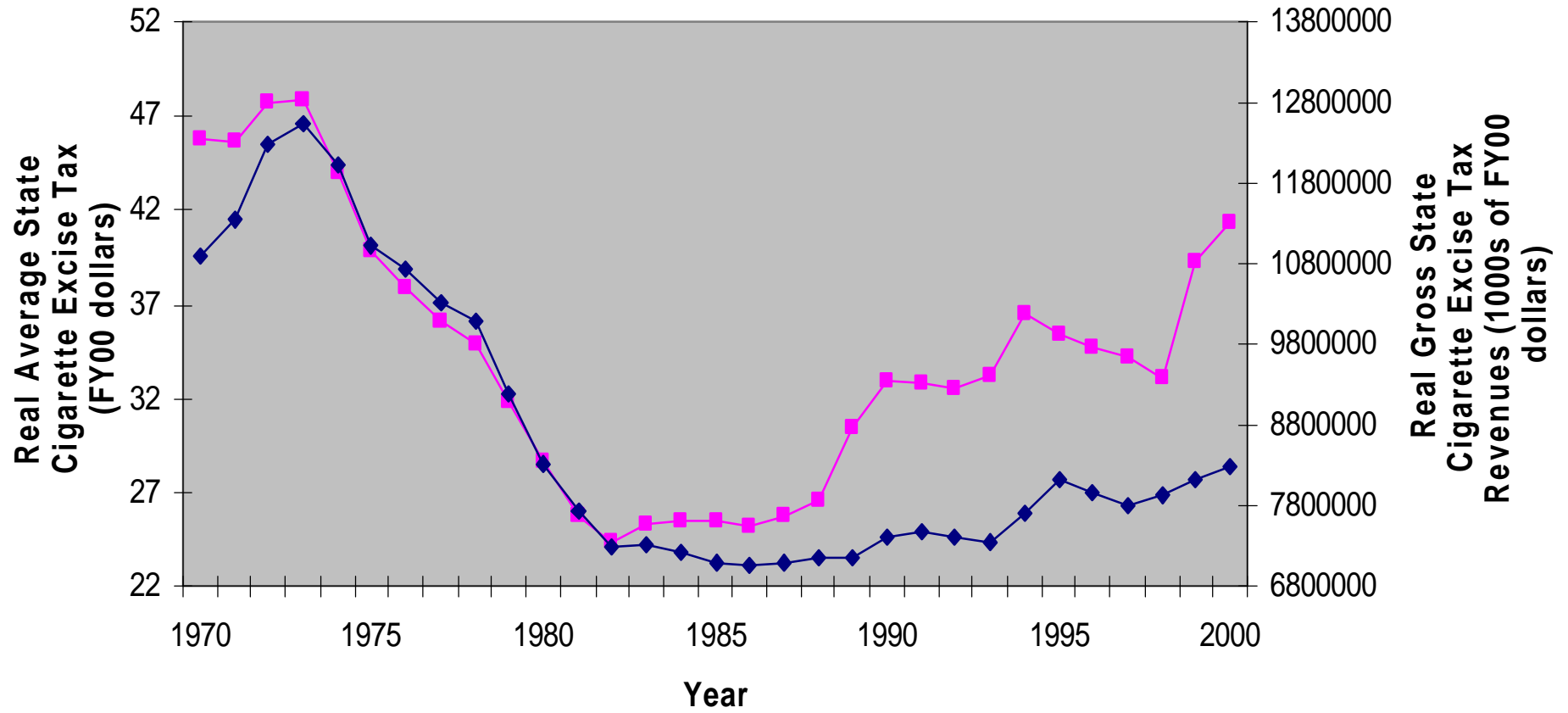
Truth: Cigarette tax revenues rise with cigarette tax rates, even as consumption declines

- Every significant increase in federal and state cigarette taxes has resulted in significant increase in revenues

Real Federal Cigarette Tax Rate and Tax Revenues

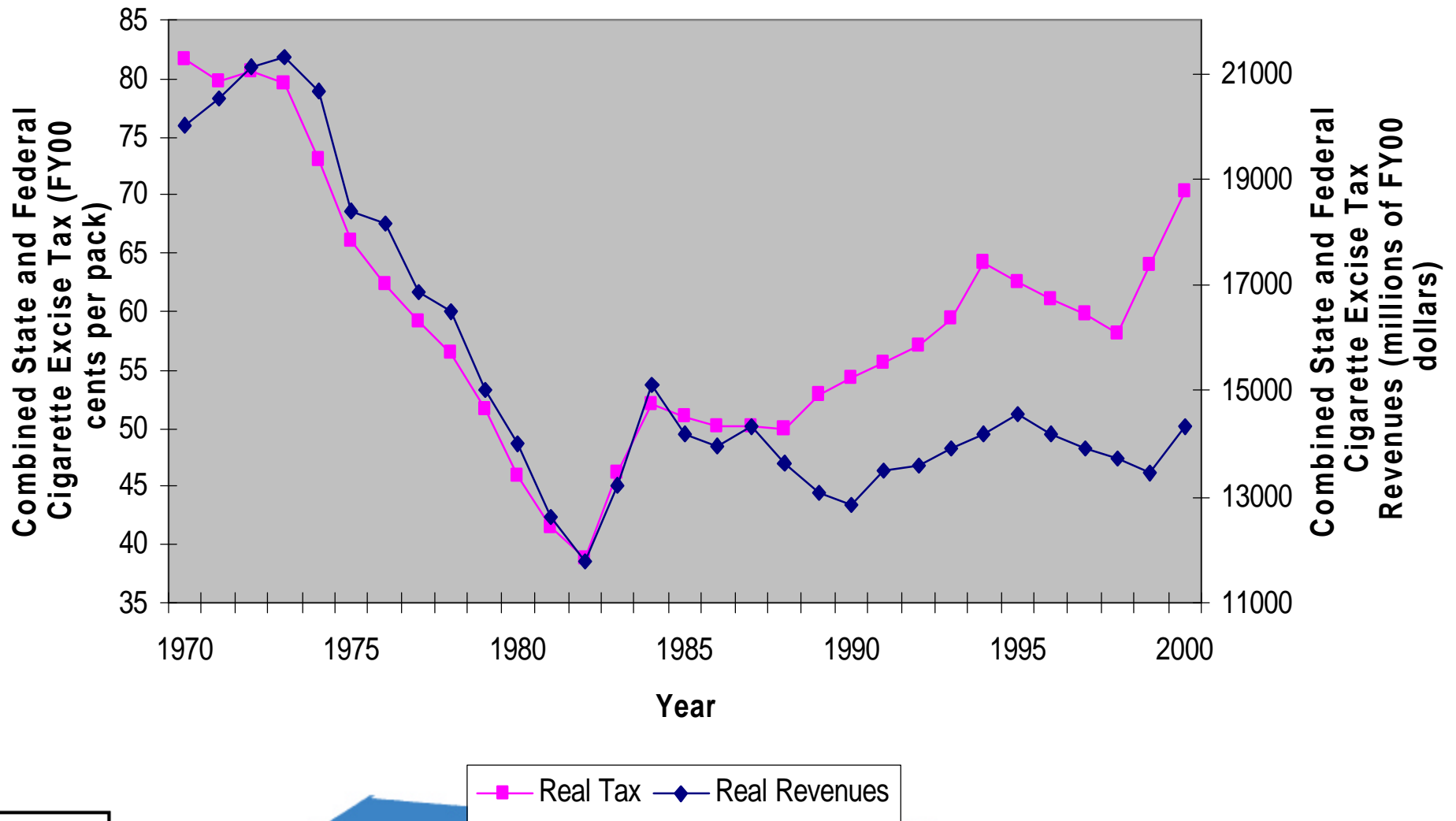


Real Average State Cigarette Excise Tax Rate and Real State Cigarette Tax Revenues

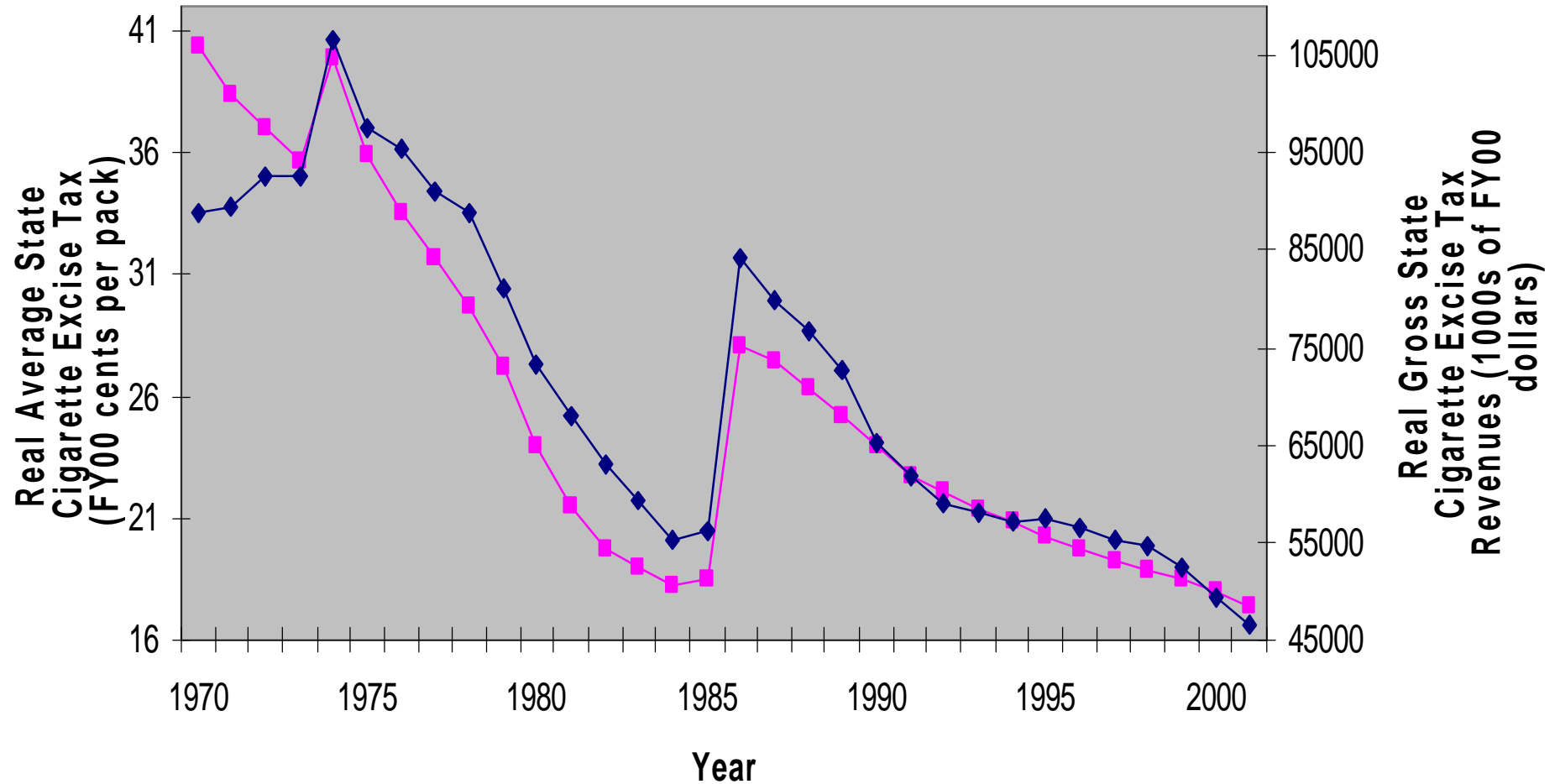


—■— Average Tax —◆— Tax Revenues

Real Average Cigarette Excise Tax and Real Cigarette Tax Revenues



Real Average State Cigarette Excise Tax Rate and Real State Cigarette Tax Revenues, Mississippi, 1970-2001





Myths About Economic Impact of Tobacco Taxation and Tobacco Control

- Impact on Jobs?

Myth: Higher tobacco taxes and tobacco control generally will result in substantial job losses

Truth: Money not spent on tobacco will be spent on other goods and services, creating alternative employment

- Many countries/states will see net gains in employment as tobacco consumption falls



Myths About Economic Impact of Tobacco Taxation and Tobacco Control

- Impact on Smuggling?

Myth: Smuggling negates the effects of increases in tobacco taxes

Truth: Even in the presence of smuggling, tax increases reduce consumption and raise revenues

- Other factors important in explaining level of smuggling
 - Effective policies exist to deter smuggling

Sources: Joossens, *et al.*, 2000; Merriman, *et al.*, 2000



Myths About Economic Impact of Tobacco Taxation and Tobacco Control

- Regressivity?

Myth: Cigarette tax increases will negatively impact on the lowest income populations

Truth: Poor consumers are more responsive to price increases

- Should consider progressivity or regressivity of overall fiscal system
- Any negative impact can be offset by use of new tax revenues to support programs targeting lowest income population

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%



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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

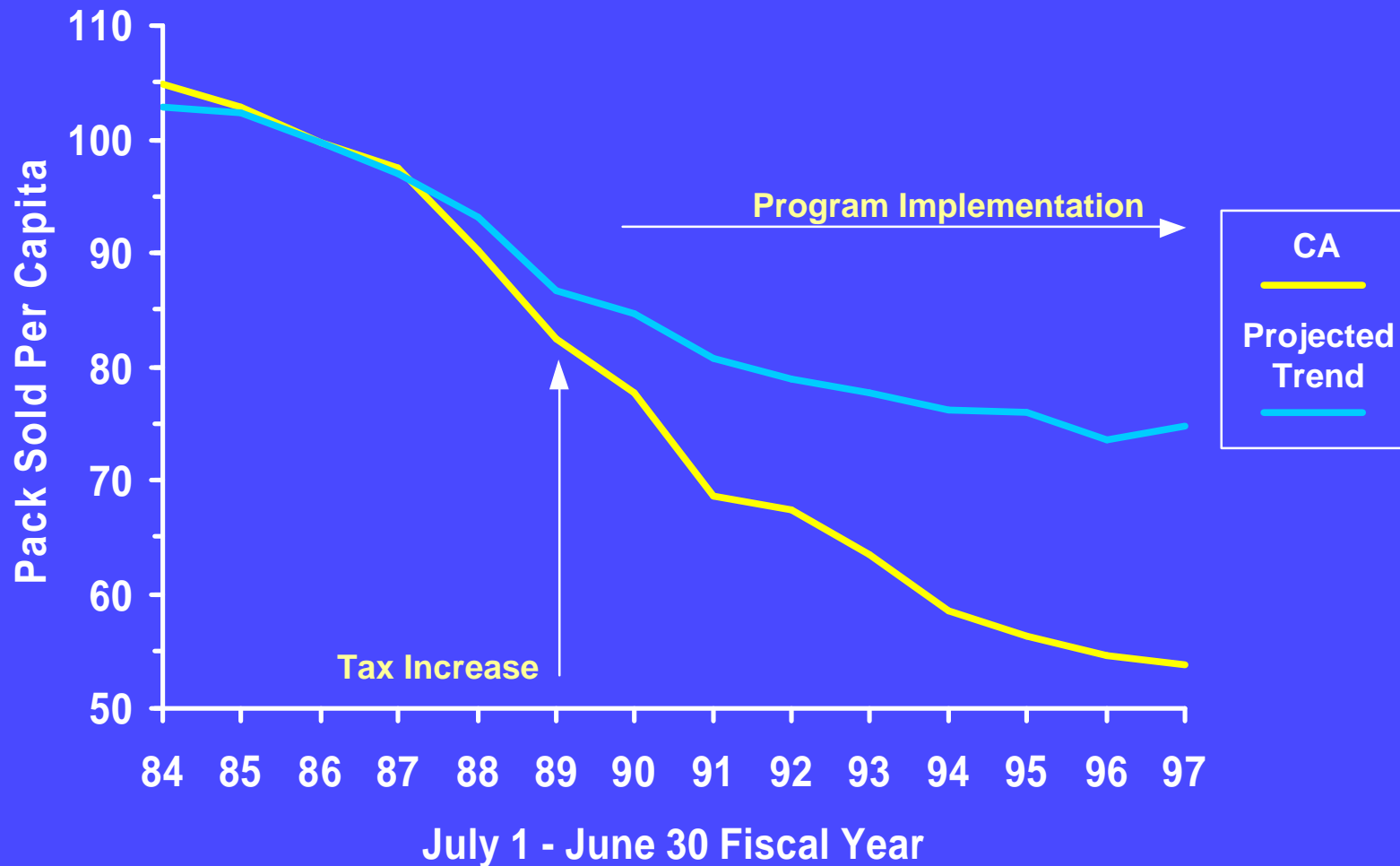
Between 1995 and 1999, the prevalence of cigarette use among youth dropped by 43% in California.

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

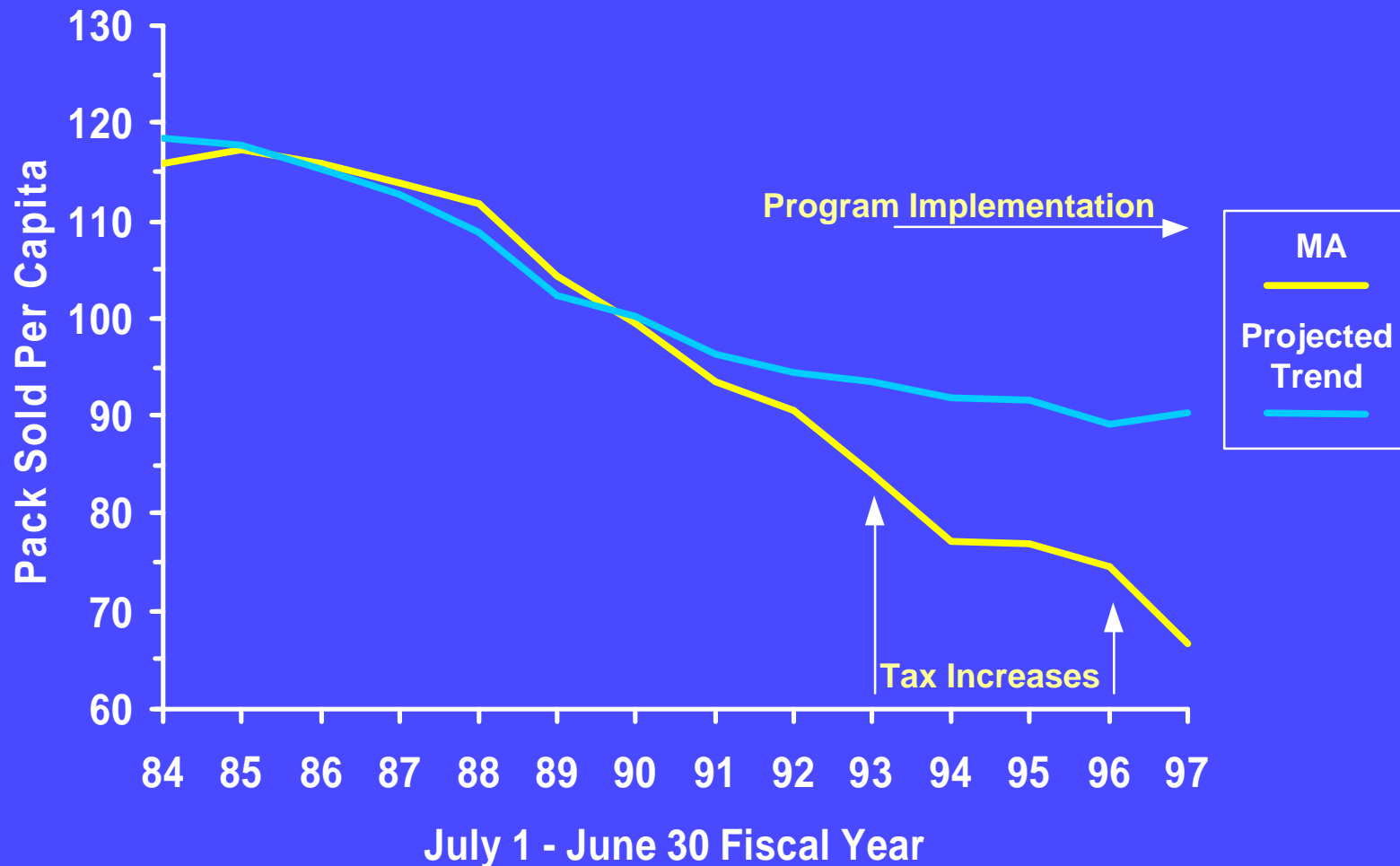
MASSACHUSETTS: 76-Cents Per Pack

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.

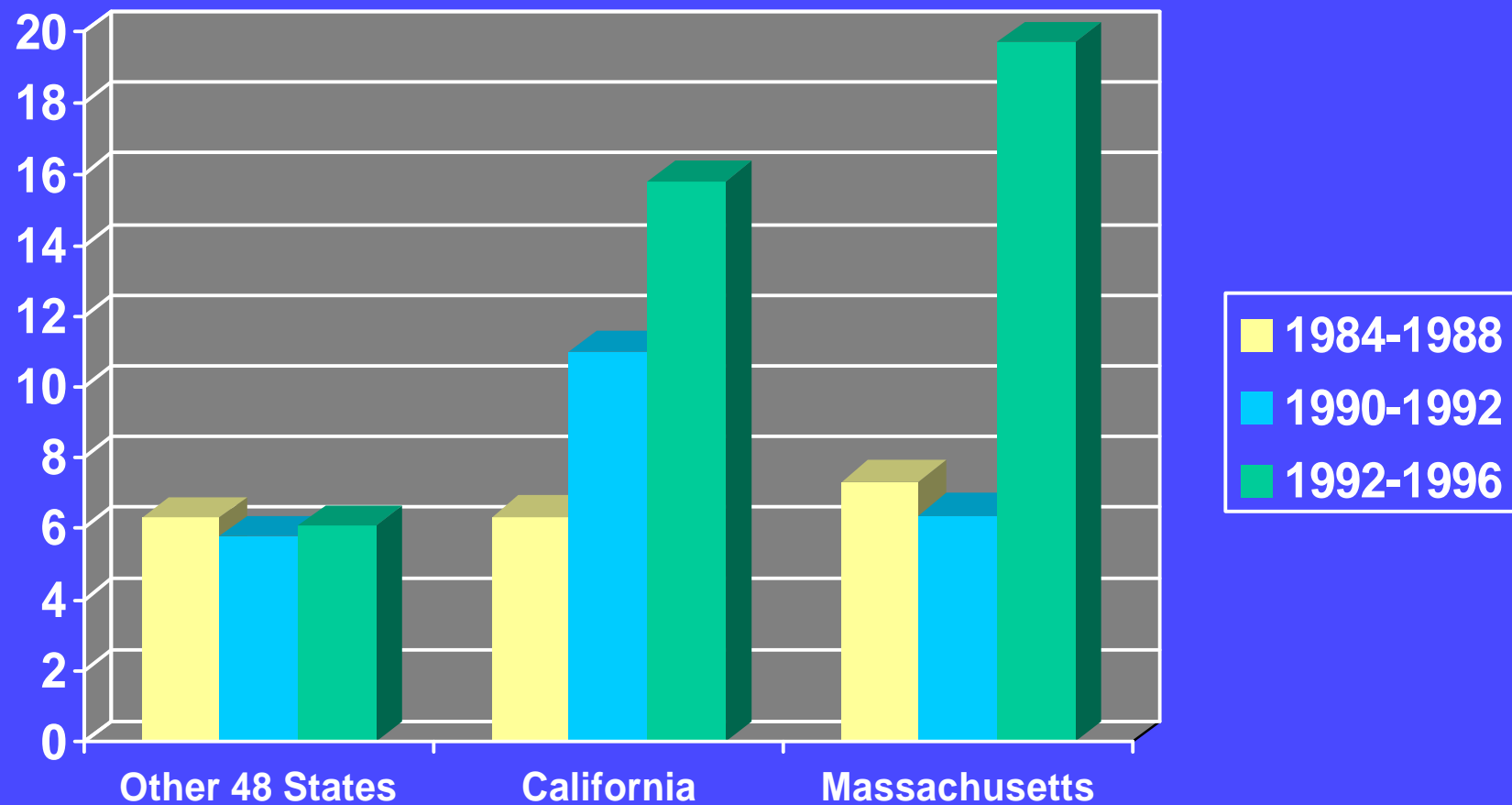
Source: State of Massachusetts, Department of Public Health

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.

Additional reductions in overall smoking and in the prevalence of youth smoking result when tax increases are coupled with comprehensive tobacco control efforts.

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