



*A Policy Research Partnership
to Reduce Youth Substance Use*

Supported by
The Robert Wood Johnson Foundation

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...."

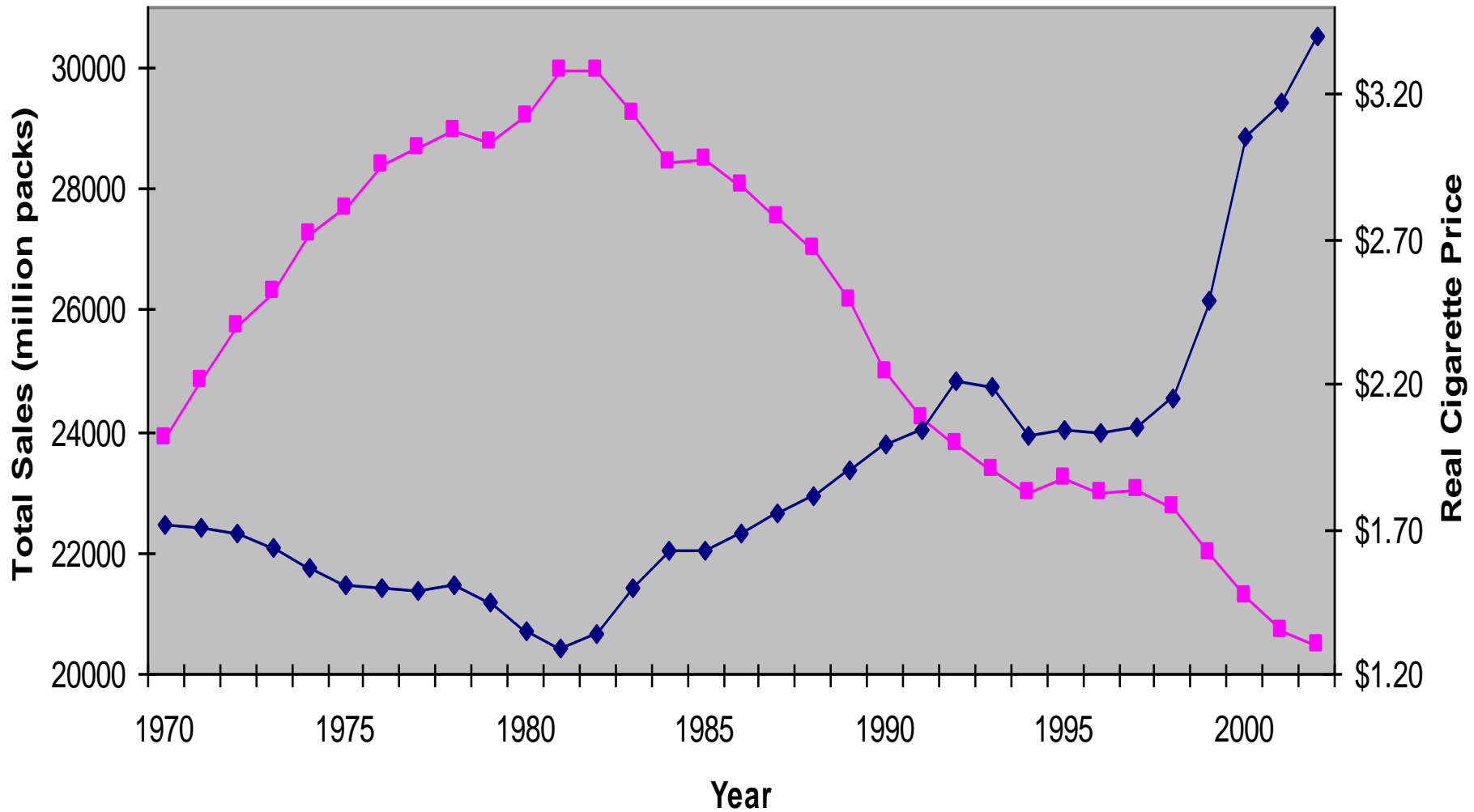
Tobacco Taxation in Minnesota

- Cigarette excise tax initially adopted in 1947
 - 4 cents per pack
- Raised infrequently over time
 - Most recent increase was from 43 cents to 48 cents per pack on July 1, 1992
 - Inflation adjusted value currently about $\frac{3}{4}$ of 1992 value
 - Currently 26th among state cigarette taxes
 - About 70 percent of the average tax in other non-tobacco growing/manufacturing states
- Tax on other tobacco products: 35% of manufacturers' price
 - Higher than the almost 20% share of state cigarette taxes in wholesale cigarette price

Tobacco Taxes and Tobacco Use

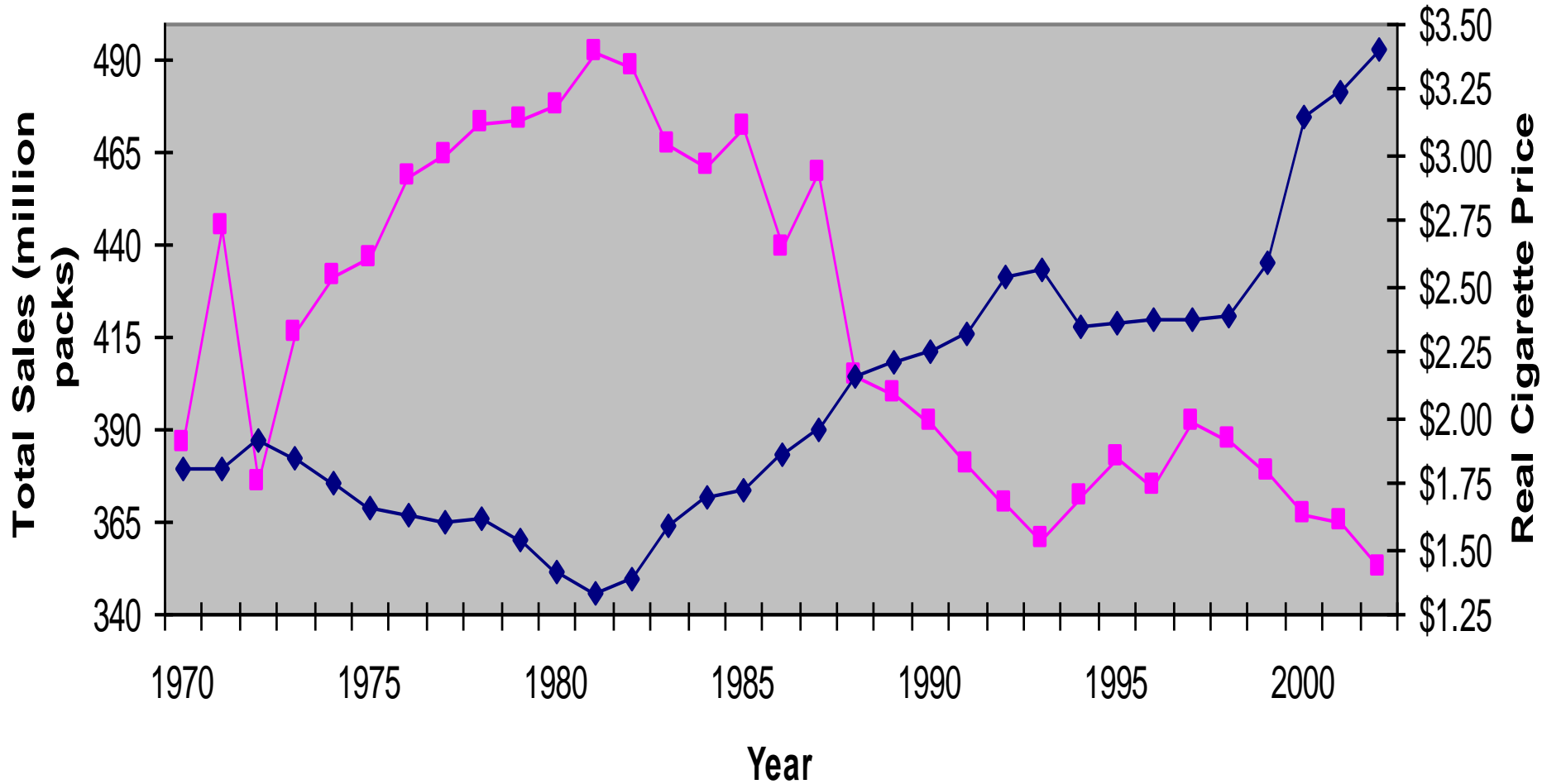
- Higher taxes induce quitting, prevent relapse, reduce consumption and prevent starting.
- Estimates from high-income countries indicate that 10% rise in price reduces overall cigarette consumption by about 4%
 - price elasticity of demand: percentage reduction in consumption resulting from one percent increase in price
- 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

Total Cigarette Sales and Cigarette Prices, United States, 1970-2002



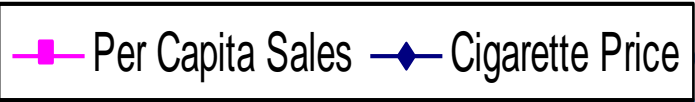
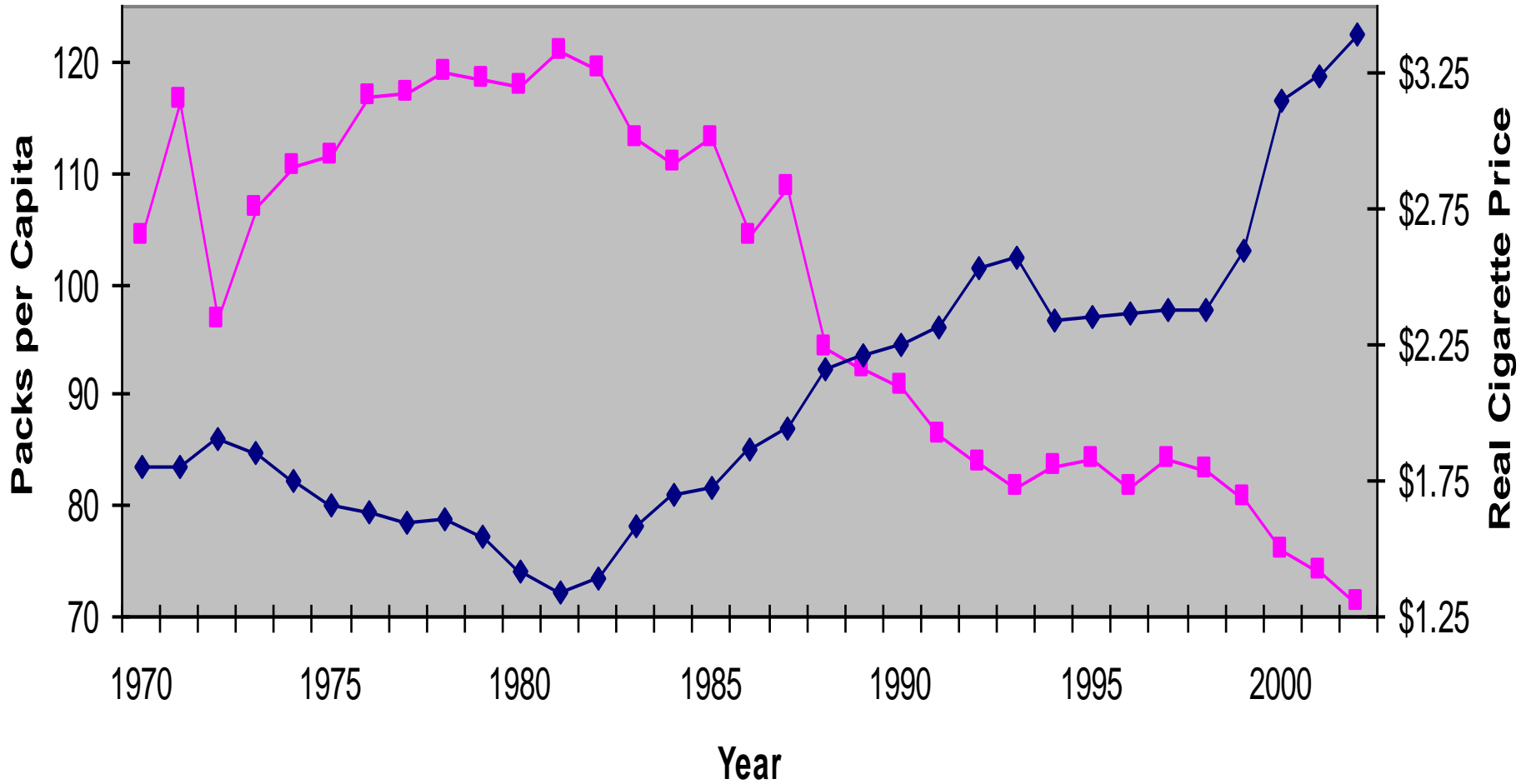
—■— Cigarette Sales (million packs) —◆— Real Cigarette Price

Total Cigarette Sales and Cigarette Prices, Minnesota, 1970-2002



■ Cigarette Sales (million packs) ◆ Real Cigarette Price

Per Capita Cigarette Sales and Cigarette Price, Minnesota, 1970-2002



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%

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 four times more responsive to price than those above median income level

Implies tax increases may be progressive

YOUNG PEOPLE MORE RESPONSIVE TO PRICE INCREASES

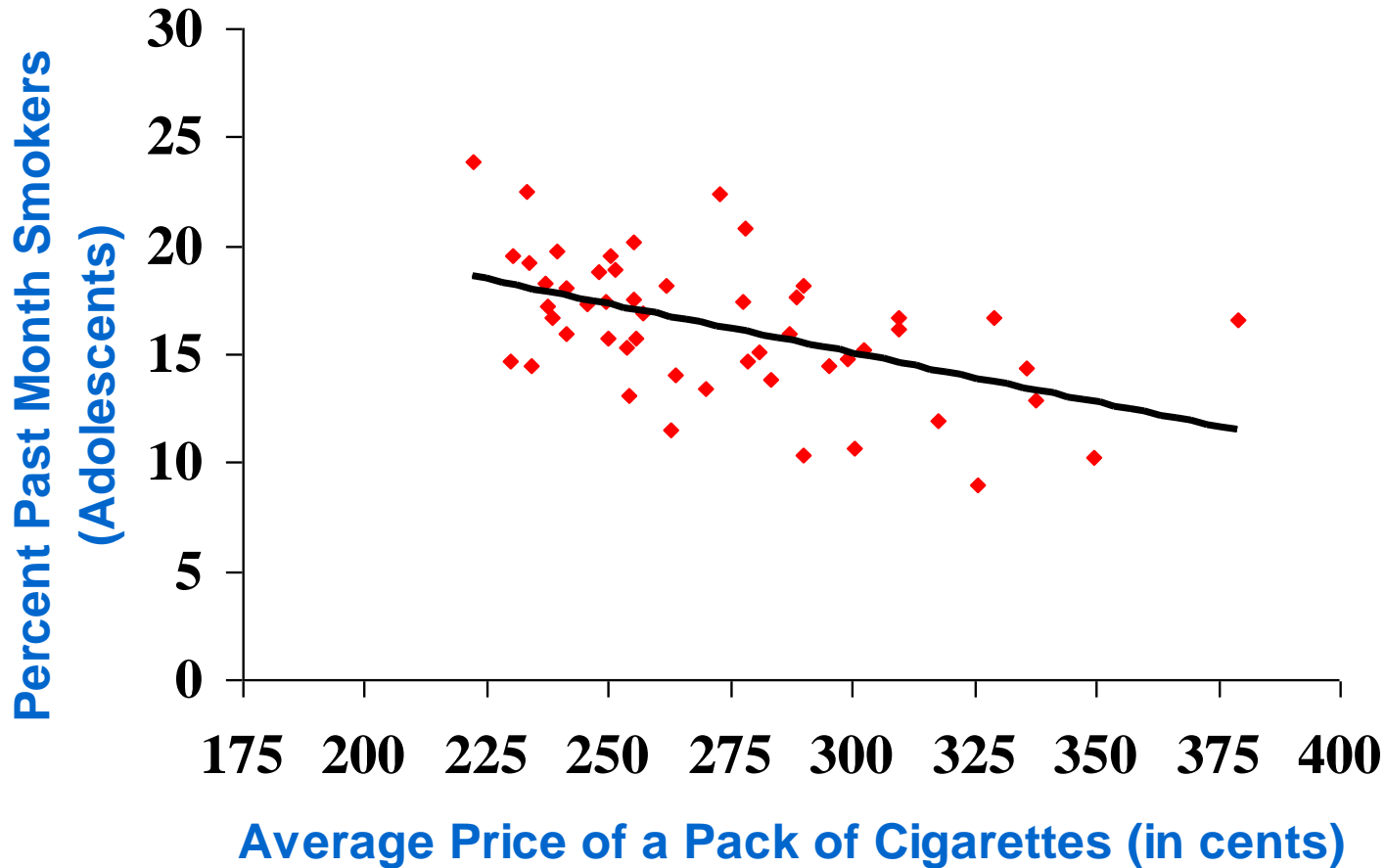
- Proportion of disposable income youth spends on cigarettes likely to exceed that for adults
- Peer influences much more important for young smokers than for adult smokers
- Young smokers less addicted than adult smokers
 - Young people tend to discount the future more heavily than adults

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 average cigarette consumption among young smokers 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%

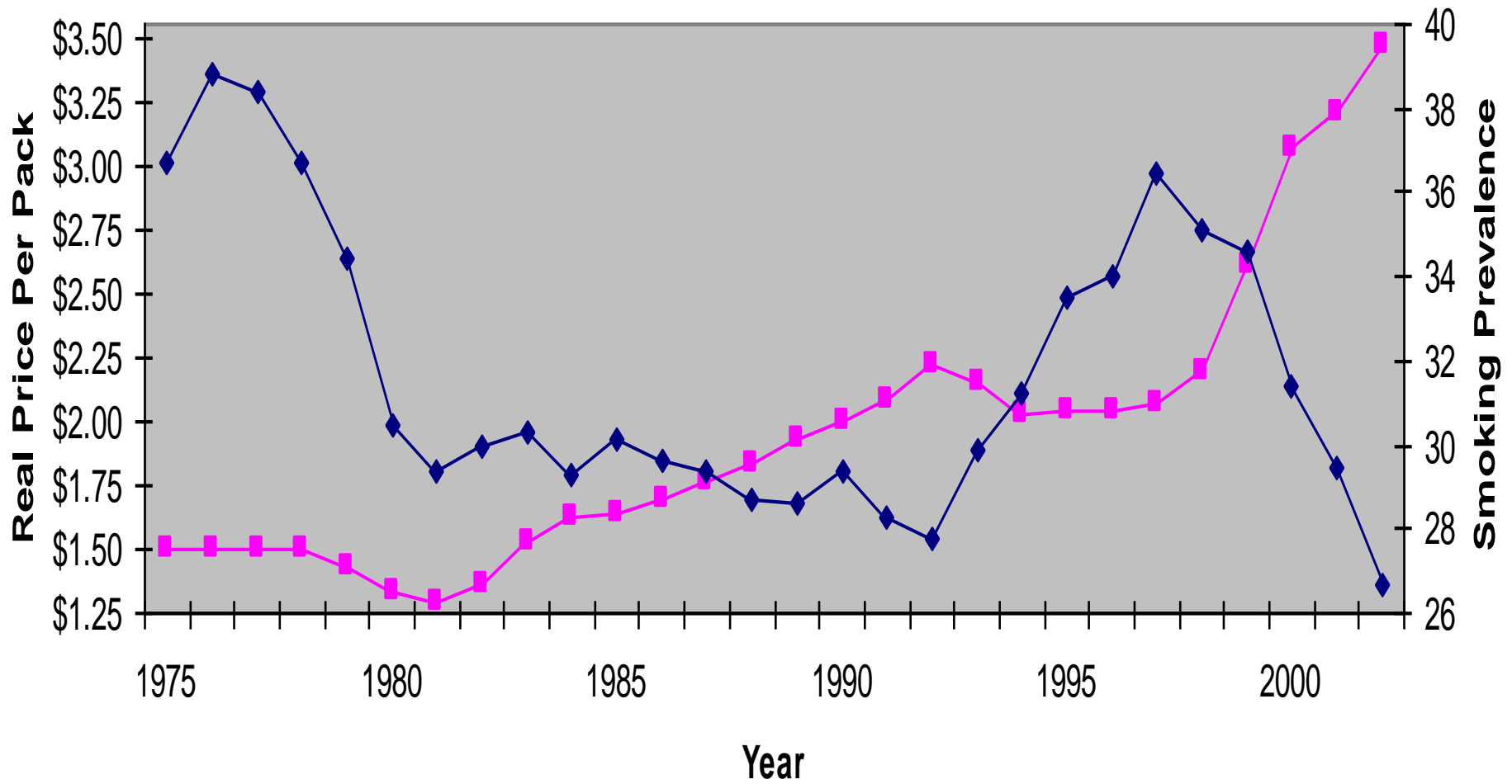
Cigarette Smoking Among Youth by the Average Price of a Pack of Cigarettes in 50 States and the District of Columbia, 1999



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

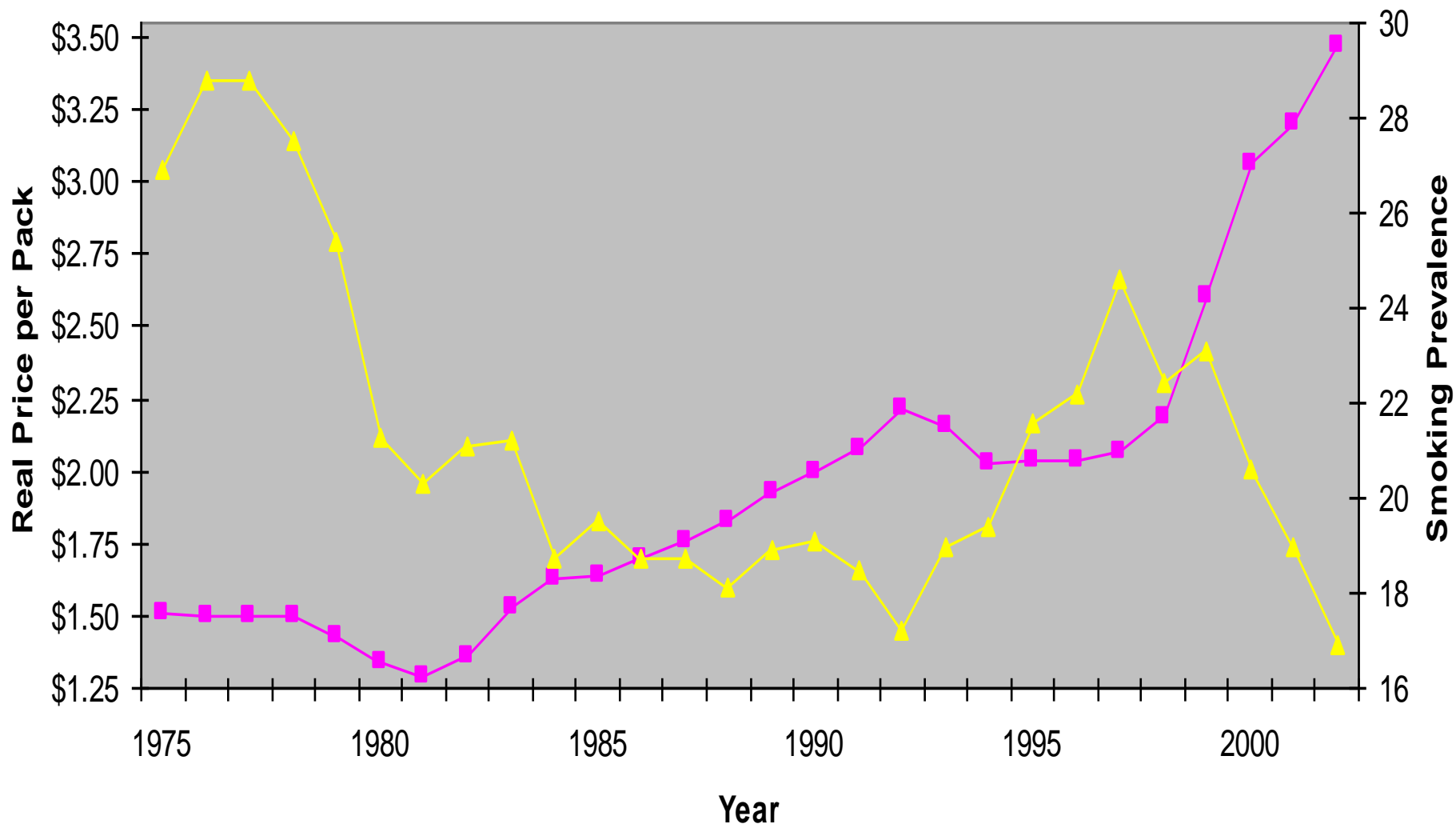
Source: *Giovino, et al., 2001*

12th Grade 30 Day Smoking Prevalence and Price, 1975-2002



—■— Cigarette Price —◆— 30 Day Smoking Prevalence

12th Grade Daily Smoking Prevalence and Price, 1975-2002



—■— Cigarette Price —▲— Daily Smoking Prevalence

Tax Increases and Minnesota

Based on these estimate, a \$1.00 per pack increase in the Minnesota cigarette tax would:

- Reduce cigarette sales by 40.6 million packs per year
- Generate over \$260 million in new revenues
- Lead 38,500 current smokers to quit
 - Prevent more than 63,300 youth from taking up smoking
 - Prevent approximately 28,600 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

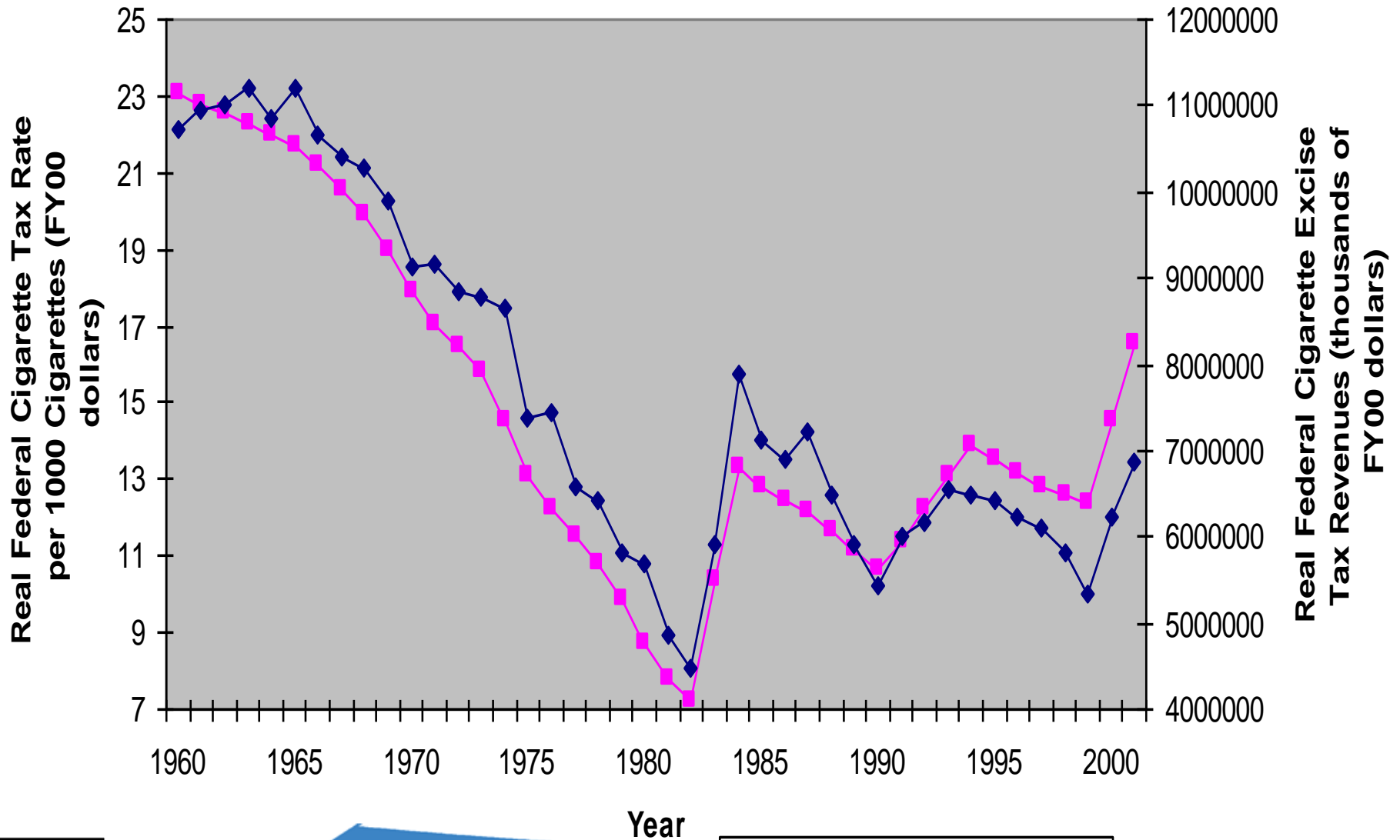
- Impact on Revenues?

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

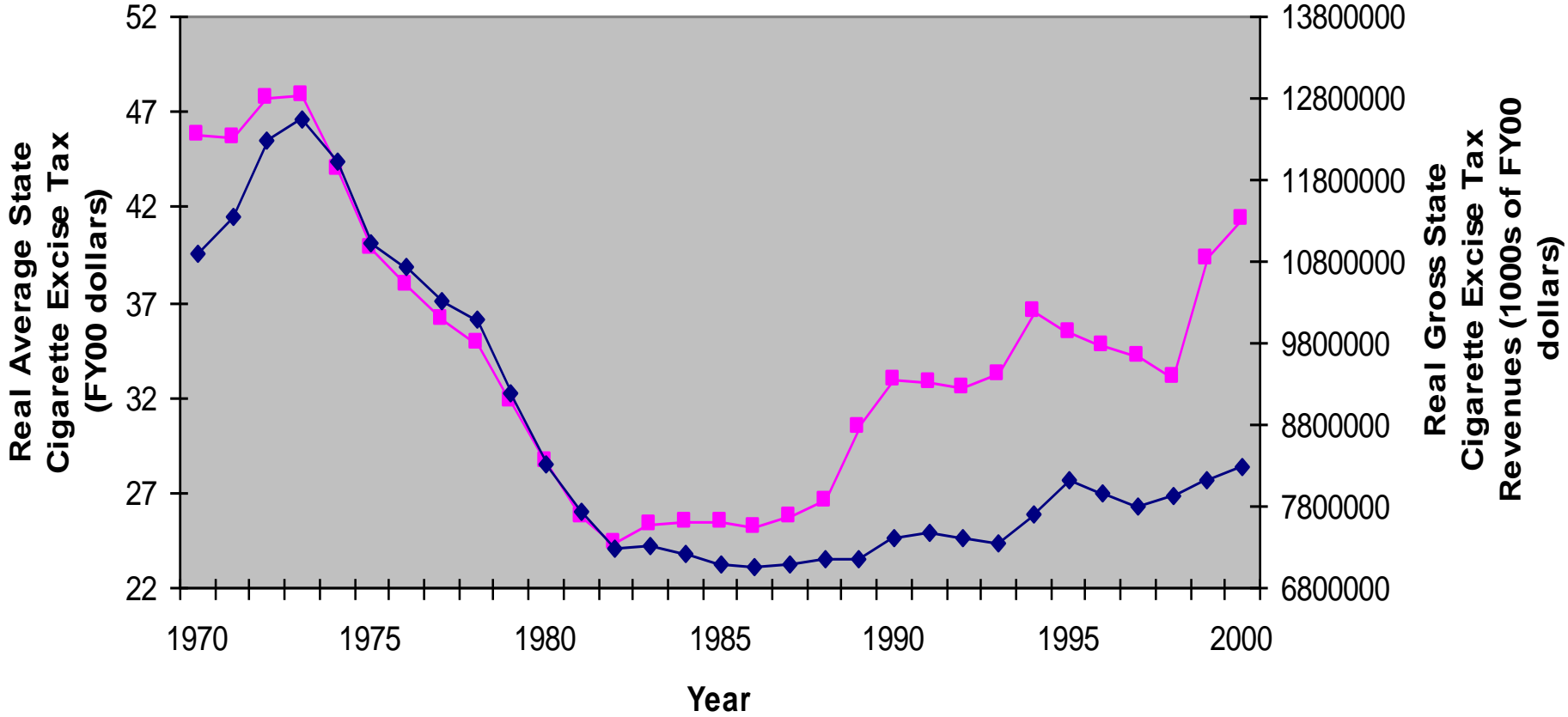
Truth: Cigarette tax revenues rise with cigarette tax rates, even as consumption declines

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

Real Federal Cigarette Tax Rate and Tax Revenues, 1960-2001

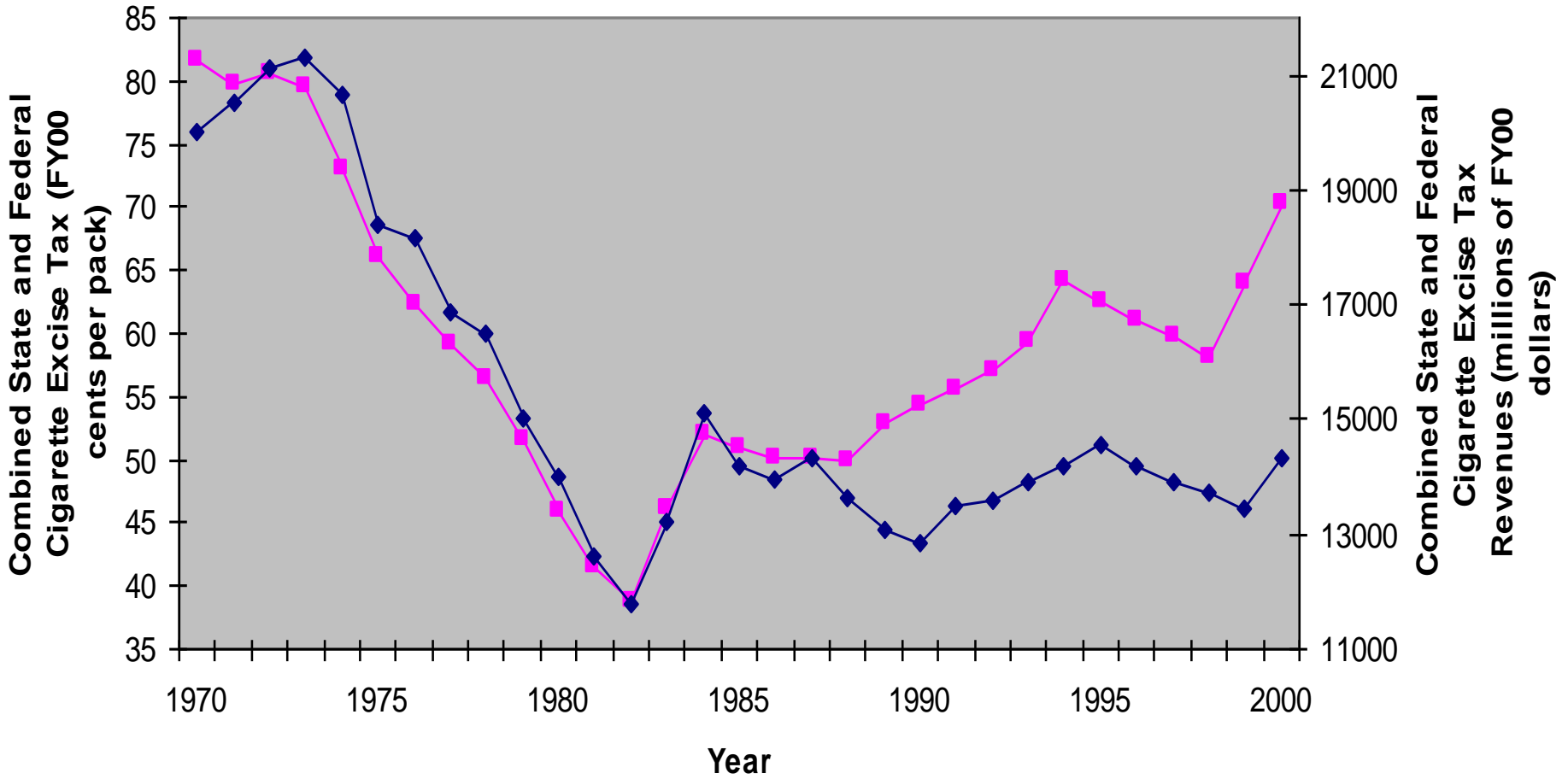


Real Average State Cigarette Excise Tax Rate and Real State Cigarette Tax Revenues



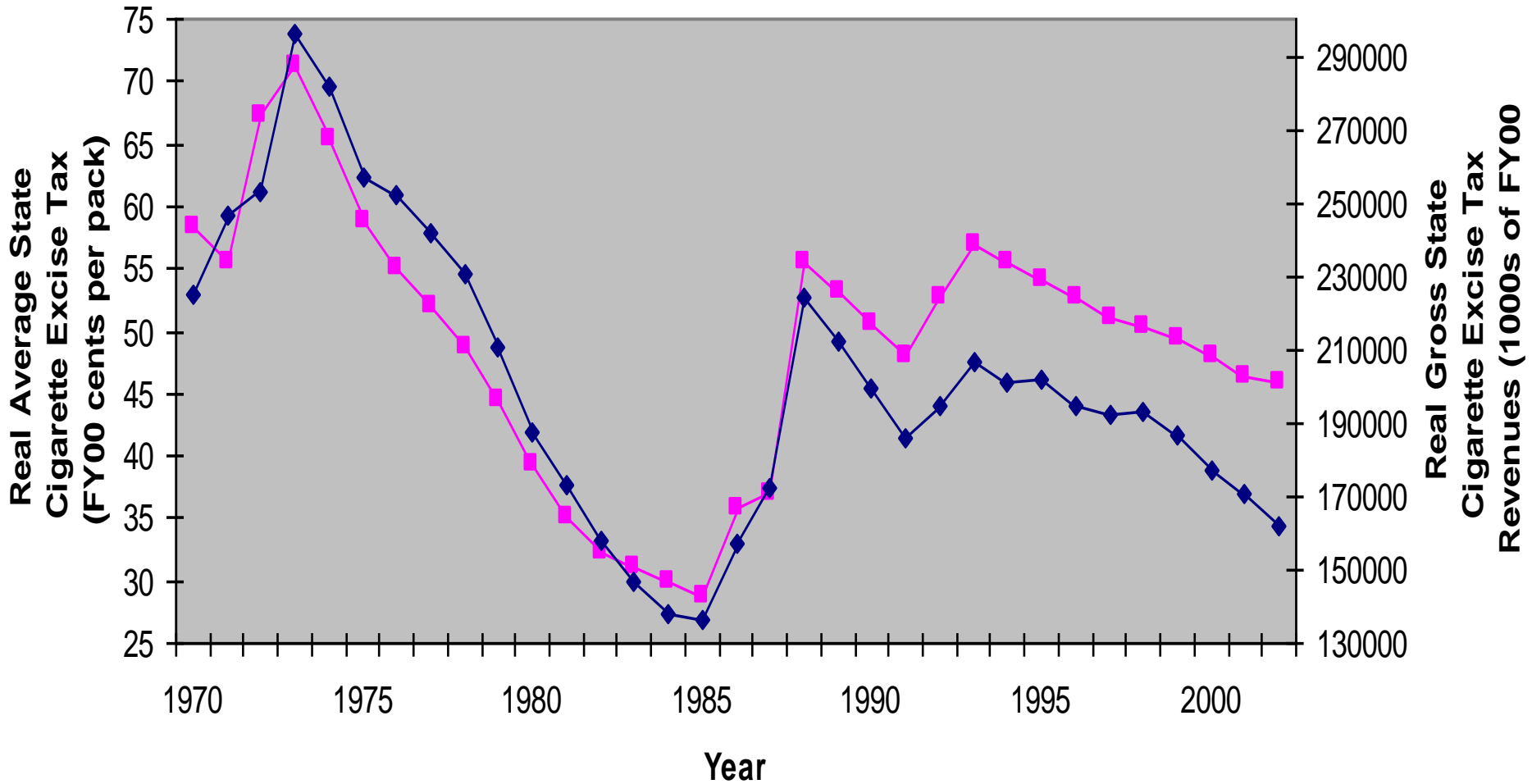
—■— Average Tax —◆— Tax Revenues

Real Average Cigarette Excise Tax and Real Cigarette Tax Revenues



Real Tax Real Revenues

Real Average State Cigarette Excise Tax Rate and Real State Cigarette Tax Revenues, Minnesota, 1970-2002



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 Tax Evasion?

Myth: Tax evasion negates the effects of increases in tobacco taxes

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

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

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 or protect funding for current programs

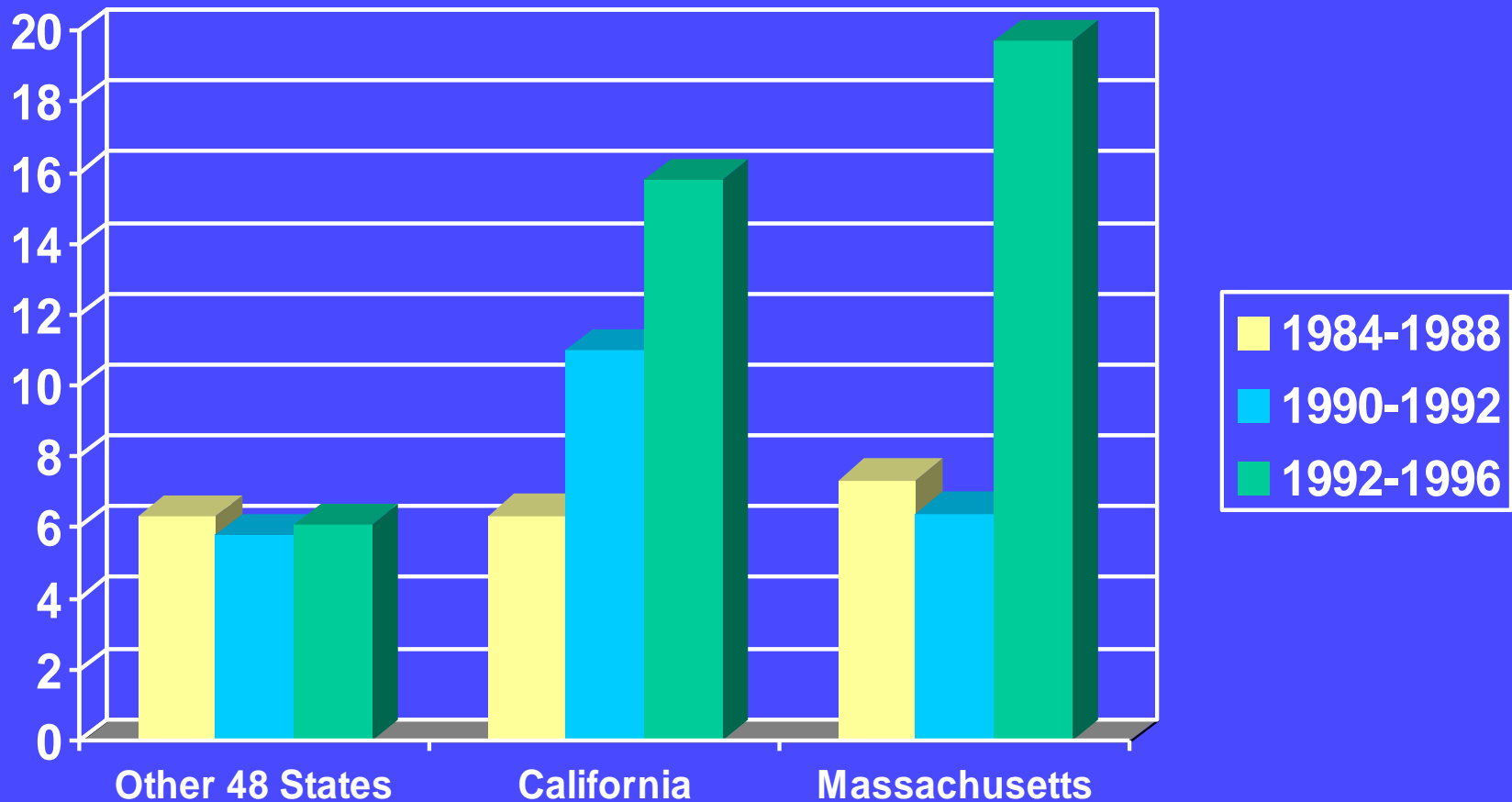
CALIFORNIA: 87-Cents Per Pack

- Two voter initiatives raised tax by 25 cents (1989) and 50 cents (1999) per pack; some revenues used to support comprehensive tobacco control program
- Nearly 58 percent decline in per capita cigarette consumption from 1988 to 2001
- Nearly 25 percent decline in adult smoking prevalence
- 48% reduction in youth smoking prevalence between 1995 and 1999
 - Due to length of time program in effect, see declines in smoking attributable cancer and other death rates
 - Estimate that every \$1.00 spent on program saved \$3.62 in medical care costs from 1990 to 1998

Massachusetts: 76-Cents Per Pack

- voter initiative raised tax by 25 cents (1993); second 25 cent legislated tax increase (1996); some revenues used to support comprehensive tobacco control program
- Almost 40 percent decline in per capita cigarette consumption from 1992 to 2001
- Significant decline in adult smoking prevalence
- Larger declines in youth smoking prevalence than in rest of the US
 - Smoking among pregnant women nearly halved between 1990 and 1996
 - Program funding eliminated in late 2002; tax increased by 75 cents per pack

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



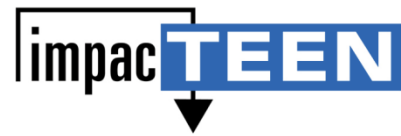
Source: CDC

Research Findings – Comprehensive Programs and State Cigarette Sales

- Higher spending on tobacco control efforts significantly reduces cigarette consumption
- Marginal impact of tobacco control spending greater in states with higher levels of cigarette sales per capita; average impact significantly higher in states with larger programs
 - Disaggregated program spending suggests that impact of programs focusing on policy change is greater than spending on other programs

Research Findings – Comprehensive Programs and Youth Smoking

- Higher spending on tobacco control efforts significantly reduces youth smoking prevalence and cigarette consumption among young smokers
 - estimated effects about 3 times those for adults
- Estimated impact of spending at CDC recommended levels: minimum: 8-9% reduction in youth smoking prevalence; maximum: over 20% reduction
- Estimates suggest that greatest impact is on earlier stages of youth smoking uptake



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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.

<http://www.impactteen.org>

<http://www.tobaccoevidence.net>

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