

CAMPAIGN For TOBACCO-FREE Kids®

RAISING STATE CIGARETTE TAXES ALWAYS INCREASES STATE REVENUES AND ALWAYS REDUCES SMOKING

Over the past decade, many states have raised their cigarette tax rates and, as the economic research predicts, in each of these states the tax increases reduced cigarette consumption below what it would otherwise have been. Every single one of these states also enjoyed increased cigarette tax revenues, despite the related reductions in smoking and cigarette sales. In every state the revenue losses from fewer cigarette sales were more than made up for by the increased state revenues per pack.

Recent State Experiences With Cigarette Tax Increases

| State | Date | Tax Increase Amount (per pack) | New State Tax (per pack) | State Consumption Decline | Nationwide Consumption Decline | Revenue Increase (percent) | New Revenues (millions) |
|---------------|-------|--------------------------------|--------------------------|---------------------------|--------------------------------|----------------------------|-------------------------|
| Alaska | 10/97 | 71¢ | \$1.00 | -13.5% | -4.7% | +202% | \$28.7 |
| California | 1/99 | 50¢ | 87¢ | -18.9% | -6.6% | +90.7% | \$555.4 |
| Hawaii | 7/98 | 20¢ | \$1.00 | -8.1% | -3.4% | +19.9% | \$6.4 |
| Illinois | 12/97 | 14¢ | 58¢ | -8.9% | -4.7% | +19.0% | \$77.4 |
| Maine | 11/97 | 37¢ | 74¢ | -15.5% | -4.7% | +66.7% | \$30.8 |
| Maryland | 7/99 | 30¢ | 66¢ | -16.3% | -3.2% | +52.5% | \$68.0 |
| Massachusetts | 10/96 | 25¢ | 76¢ | -14.3% | -0.9% | +28.0% | \$64.1 |
| Michigan | 5/94 | 50¢ | 75¢ | -20.8 % | -0.5% | +139.9% | \$341.0 |
| New Hampshire | 7/99 | 15¢ | 52¢ | -10.4 | -3.2% | +27.1% | \$19.6 |
| New Jersey | 1/98 | 40¢ | 80¢ | -16.8% | -4.7% | +68.5% | \$166.6 |
| New York | 3/00 | 55¢ | \$1.11 | -20.2% | -5.7% | +57.4% | +\$365.4 |
| Oregon | 2/97 | 30¢ | 78¢ | -8.3% | -0.9% | +77.0% | \$79.8 |
| Rhode Island | 7/97 | 10¢ | 71¢ | -1.5% | -1.3% | +16.2% | \$8.6 |
| South Dakota | 7/95 | 10¢ | 33¢ | -5.6% | -1.2% | +40.4% | \$6.1 |
| Utah | 7/97 | 25¢ | 51.5¢ | -25.7% | -1.3% | +71.0% | \$17.6 |
| Vermont | 7/95 | 24¢ | 44¢ | -16.3% | -1.2% | +84.2% | \$11.7 |
| Wisconsin | 11/97 | 15¢ | 59¢ | -6.5% | -4.7% | +25.8% | \$52.9 |

Sources: Orzechowski & Walker, *Tax Burden on Tobacco* (2002) [tobacco-industry funded volume of state tobacco tax data]; state revenue offices. Consumption declines and revenue increases calculated from the last full fiscal year (7/1 to 6/30) before the tax increase to the first full year after the increase. Nationwide consumption declines are for all 50 states and Washington, DC. The power of state tax increases to reduce consumption beyond nationwide trends would be even more apparent if each tax-increase state's declines were compared to the decline (or increase) in consumption among all other states not including the state, itself, and any other state with a concurrent cigarette tax increase. State increases in 2002 by New York, Washington State, Connecticut, Utah, Maryland, Nebraska, Ohio, Illinois, Rhode Island, Louisiana, and Vermont; and in 2001 by Rhode Island, Wisconsin, Arkansas, and Maine are not included above because there is not yet sufficient data to calculate the year-to-year changes.

Cigarette Company False Arguments Against State Tobacco Tax Increases

For over 15 years, economic research studies have consistently documented the fact that cigarette price increases reduce smoking, especially among kids. These studies currently conclude that every 10 percent increase in the real price of cigarettes will reduce the total amount of adult smoking by about four percent and reduce teen smoking by roughly seven percent.¹ In addition, internal tobacco industry documents revealed through the various lawsuits against the cigarette companies show that since at least the early 1980s the

companies have fully understood that cigarette tax increases reduce their sales, especially among kids (their replacement customers).² In fact, the cigarette companies regularly admit that cigarette tax increases reduce cigarette sales in their official filings with the U.S. Securities and Exchange Commission.³ Accordingly, it is not surprising that the companies spend millions of dollars to oppose state cigarette tax increases. But it is surprising that the companies and their allies continue to argue, falsely, that cigarette tax increases will not reduce smoking.

The cigarette companies also falsely argue that cigarette tax increases will not produce substantial amounts of new revenue because they will prompt enormous surges in cigarette smuggling and smoker efforts to evade the higher taxes through cross-border or internet cigarette purchases. Again, it is amazing that the companies and their allies make this argument when (as shown above) *every single state that has significantly increased its cigarette taxes has significantly increased its revenues – despite the lost sales caused by the related smoking declines and despite any associated increases in cigarette smuggling or other tax-avoidance*. Moreover, research shows the cigarette smuggling and tax avoidance are relatively minor problems.

For example, the one of the most recently published scientific research studies on cigarette smuggling found that cigarette smuggling and cross-border cigarette purchases account for no more than about five percent of all cigarette sales.⁴ Similarly, a California study found that soon after the state's 50-cent cigarette-tax increase went into effect in 1999 no more than five percent of all continuing smokers were purchasing cigarettes in nearby states, from Indian reservations or military bases, or via the internet, or were otherwise avoiding the state's cigarette tax.⁵ It also appears that many smokers who initially try to avoid large state cigarette tax increases soon use up their stockpile of cigarettes purchased right before the increase or tire of driving across state border or going to the internet to buy cheaper cigarettes and return to the convenience of normal full-tax purchases in their own state.⁶ Indeed, the vast majority of smokers prefer to buy cigarettes by the pack, but cross-border and internet purchases involve multiple cartons. Depleted pre-increase stockpiles, tax-avoidance fatigue, and the strong appeal of convenient single-pack purchases explain while New York state's taxable pack sales decreased sharply in the year after the state's 55-cent tax increase in March 2000, beyond what consumption declines might explain, they then increased in the following year (despite new consumption-reducing price increases by the cigarette companies).*

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For more on tobacco taxes, see the Campaign website at <http://tobaccofreekids.org/reports/prices>

For information on cigarette company involvement in cigarette smuggling, see <http://www.tobaccofreekids.org/research/factsheets/pdf/0044.pdf>

¹ See, e.g., Chaloupka, F., "Macro-Social Influences: The Effects of Prices and Tobacco Control Policies on the Demand for Tobacco Products," *Nicotine & Tobacco Research*, 1999, and other studies at www.tigger.uic.edu/~fjc.

² See, e.g., Philip Morris Executive Jon Zoler, "Handling An Excise Tax Increase," September 3, 1987, PM Bates Number: 2058122240/2241; R.J. Reynolds Executive D. S. Burrows, "Estimated Change In Industry Trend Following Federal Excise Tax Increase," September 20, 1982, RJR Bates Number 500045052/5132; Philip Morris Research Executive Myron Johnston, "Teenage Smoking and the Federal Excise Tax on Cigarettes," September 17, 1981, PM Bates Number: 2001255224/5227.

³ See, e.g., Philip Morris 10-Q SEC report, May 11, 2001; RJR 10-Q report, August 1, 2001; Loews (parent corporation of the Lorillard cigarette company) 10-K report, March 31, 1999.

* It is also worth noting that any real or imagined problems with smuggling and tax avoidance from New York's tax increase in 2000 were not significant enough to stop the state from increasing its cigarette tax again, by 39 cents, in 2002, to \$1.50 per pack, the highest rate in the country.

⁴ Yurekli, A. & P. Zhang, "The Impact of Clean Indoor-Air Laws and Cigarette Smuggling on Demand for Cigarettes: An Empirical Model," *Health Economics* 9:159-170, 2000.

⁵ Emery, S et al., "Was there significant tax evasion after the 1999 50 cent per pack cigarette tax increase in California?," *Tobacco Control* 11: 130-34, June 2002, <http://tc.bmjournals.com/cgi/reprint/11/2/130.pdf>.

⁶ See, e.g., Spencer, M., "Incensed Smokers Stock Up Before Tax Rises," *Hartford Courant*, April 3, 2002.