

CAMPAIGN For TOBACCO-FREE Kids®

STATE CIGARETTE TAX INCREASES BENEFIT LOWER-INCOME SMOKERS AND FAMILIES

Because smoking levels are highest among people with low incomes, the cigarette companies try to argue that cigarette tax increases are regressive taxes that fall disproportionately hard on lower-income persons. But this argument turns reality upside down. Higher smoking rates among lower-income groups means they are now suffering the most from smoking and will, consequently, benefit the most from any effective new measures to reduce smoking, including increased state tobacco taxes.

The cigarette companies also say that they oppose higher cigarette taxes because they care about low-income families. But these are the same companies that have been preying on low-income and poor communities for decades. In fact, from 1998 to 2002 the cigarette companies increased the prices they charge for their cigarettes by more than \$1.00 per pack (and by more than two cents for every cent needed to cover all of their costs from the state tobacco lawsuit settlements).¹ The cigarette companies have no problem with levying new charges on low-income smokers when it increases their own profits. They only oppose the new charges when someone else (like a state government) gets the new revenues, instead.

The reason the cigarette companies make their regressivity arguments and oppose cigarette tax increases is simple. Cigarette tax increases reduce current smoking and stop kids from starting, thereby shrinking the companies' profits.² The companies' anti-tax arguments also fail to account for the following facts.

Low-income smokers are much more likely to quit because of state tobacco-tax increases than higher-income smokers. In general, lower-income smokers are less likely to quit than higher-income smokers and they and their families are more likely to continue suffering from their smoking. But state cigarette-tax increases offer one of the best ways to fight that general trend. By raising cigarette prices, state cigarette tax increases work much more powerfully to prompt lower-income smokers to quit or cutback and to stop lower-income kids from every starting than they do among higher-income smokers and youths.³ For example, smokers with family incomes at or below the national median are four times as likely to quit because cigarette price increases as those with higher incomes.⁴ Accordingly, cigarette tax increases offer one of the best ways to help low-income families that currently suffer from direct and secondhand smoking to escape from the smoking-caused health risks, disease, and related costs -- and lower-income smokers and families will be much more likely to have those harms and costs eliminated or reduced by a cigarette tax increase than similar families with higher-incomes. Those cost reductions (including reduced family expenditures on cigarettes) will also have a more powerful, beneficial impact on the financial health of the lower-income households compared to those with higher incomes.

State tobacco-tax increases shift the overall tobacco-tax burden more toward higher-income smokers. Because more lower-income smokers than higher-income smokers will quit or cutback because of cigarette tax increases, any state that significantly increases its cigarette tax rate will also end up increasing the portion of the state's total cigarette tax revenues that are paid for by higher-income smokers and reduce the portion paid by lower-income smokers.⁵

State cigarette tax increases give many current smokers a "tax cut." Many current smokers (especially those with low incomes) will completely avoid the new cigarette tax by quitting and others will reduce its impact by cutting back on their smoking or switching from premium brands to cheaper cigarettes. Those that quit because of the tax increase will end up saving all the money they used to spend on cigarettes (not just the money they used to spend on cigarette taxes), and some of those who cut back or switch to cheaper brands will also reduce their overall expenditures on cigarettes. A study in England, for example, found that low-income smokers actually reduced their overall expenditures on cigarettes in response to increased cigarette taxes.⁶ In the United States, every pack-a-day smoker who quits in response to a state cigarette tax increase will not only avoid the tax increase but also save more than \$1,300 per year from no longer buying cigarettes (with additional savings from also stopping other smoking-related expenditures).⁷ Other smokers who quit or cut back would obtain similar savings.

Low-income voters strongly support tobacco-tax increases. In poll after poll lower-income Americans (along with all other Americans) strongly support higher cigarette taxes.⁸ A recent poll in Indiana, for example, found that 77 percent of voters with family incomes less than \$25,000 per year supported a 50-

cent increase (to 65.5 cents per pack). In Connecticut, 62 percent of those with annual family incomes less than \$40,000 support a 50-cent increase (to \$1.00 per pack). In Kansas, 76 percent of voters with family incomes of less than \$30,000 per year support a 75-cent increase (to 99 cents per pack). In about a dozen other states where polls surveyed low-income attitudes, at least 57 percent of lower-income voters supported substantial increases in the state cigarette tax.⁹ In a nationwide poll of African Americans, more than 73 percent said that they did not think that tobacco tax increases were unfair to African Americans and more than 57 percent said that they would not be opposed to increasing cigarette taxes even if they knew that low-income smokers would be hit the hardest.¹⁰

State tobacco-tax increases improve the health of low-income smokers and their families and significantly reduce their related costs.

- Those who stop smoking in response to cigarette tax increases will greatly improve their own health, which could significantly reduce their health costs. Smokers die younger than nonsmokers but because of their higher rates of illness and disability they still have substantially higher annual and lifetime health care costs.¹¹ Nationwide, smoking-caused health care expenditures total more than \$89 billion per year, with billions being paid directly by smokers through direct health care payments and increased health insurance premiums.¹² Smokers who quit or cutback will also help reduce the amount of secondhand smoke their family, friends, and coworkers are exposed to -- thereby producing additional health improvements and related cost savings for their families and communities.¹³
- Even those low-income smokers who do not quit or cutback will still benefit because the cigarette tax increase will reduce smoking among their family members and friends. The tax increase might not get them to quit, but it might stop their kids from falling victim to tobacco use.
- Smokers who do not reduce their smoking because of a cigarette tax increase will also still benefit economically, along with every other federal or state taxpayer. Right now, smoking produces a "hidden tax" that totals more than \$40 billion per year to pay for smoking-caused state and federal healthcare costs.¹⁴ Smoking declines caused by state cigarette tax increases directly reduce these smoking-caused tax burdens for all taxpayers.¹⁵

Other benefits to low-income families and communities from state tobacco-tax increases.

- Low-income smokers and their communities disproportionately benefit when any of the new revenues from cigarette tax increases are directed to new programs to help people quit and to prevent kids from starting – both because smoking is more prevalent among low-income persons and because such programs are much less available to lower-income persons than to those with higher incomes.
- New revenues from state cigarette tax increases can also prevent cuts to government programs that provide critically needed services to low-income families or communities.
- An April 2002 research study actually found that, overall, both Canadian and U.S. smokers are significantly happier when cigarette excise taxes increase, perhaps because the increases help them quit or cutback or increase their resolve to do so soon.¹⁶

As an Australian economic study of the impact of a 25 percent decrease in smoking concluded:

"In households where smoking ceased, substantial benefits would accrue in terms of the weekly funds released for alternative purchases. Added to these would be the benefits of improved health and life expectancy resulting from smoking cessation. Relative to household income, the greatest benefits, in terms of additional available expenditure, would accrue to the poorest 20 per cent of households."¹⁷

Given the strong support for cigarette tax increases among low-income persons and the enormous benefits those tax increases bring to low-income smokers, families, and communities, the big cigarette companies' efforts to "protect" low-income communities from higher cigarette taxes is not only patronizing and misdirected but also hostile to lower-income interests. The cigarette companies' regressivity argument should be seen for exactly what it really is: a self-serving smokescreen designed to keep smoking levels up and protect cigarette company profits.

For more information on state tobacco-tax increases, see the Campaign's website at www.tobaccofreekids.org/reports/prices & <http://www.tobaccofreekids.org/research/factsheets>.

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¹ Campaign for Tobacco-Free Kids (TFK) factsheets, *U.S. Cigarette Companies' Settlement-Related Price Hikes Excessive*, www.tobaccofreekids.org/research/factsheets/pdf/0071.pdf, and *US Cigarette Company Price Hikes vs. Federal Cigarette Tax Increases (1994-2002)*, www.tobaccofreekids.org/research/factsheets/pdf/0091.pdf.

² TFK factsheet, *Raising Cigarette Taxes Reduces Smoking, Especially Among Kids (and the Cigarette Companies Know It)*, www.tobaccofreekids.org/research/factsheets/pdf/0146.pdf.

³ See, e.g., U.S. Centers for Disease Control and Prevention (CDC), "Responses to Cigarette Prices By Race/Ethnicity, Income, and Age Groups – United States 1976-1993," *Morbidity and Mortality Weekly Report (MMWR)* 47(29): 605-609, July 31, 1998, <http://www.cdc.gov/mmwr/preview/mmwrhtml/00054047.htm> or <ftp://ftp.cdc.gov/pub/Publications/mmwr/wk/mm4729.pdf>. Chaloupka, F. J. & R. Pacula, *An Examination of Gender and Race Differences in Youth Smoking Responsiveness to Price and Tobacco Control Policies*, National Bureau of Economic Research, Working Paper 6541, April 1998.

⁴ CDC, *MMWR* 47(29): 605-609, July 31, 1998, <http://www.cdc.gov/mmwr/preview/mmwrhtml/00054047.htm> or <ftp://ftp.cdc.gov/pub/Publications/mmwr/wk/mm4729.pdf>.

⁵ Using CDC data, if lower-income smokers account for 60% of a state's cigarette tax revenues with 40% from higher income smokers, a tax increase that raises the price of a pack by 25% will reduce the number of packs smoked by lower-income persons by about 7.25% and reduce the number of packs smoked by higher-income smokers by 4.25%. After those reductions, lower-income smokers will be paying 59% of all state cigarette tax revenues and higher-income smokers will be paying 41%. Larger cigarette tax increases would have more pronounced effects. CDC, *MMWR* 47(29): 605-609, July 31, 1998, <http://www.cdc.gov/mmwr/preview/mmwrhtml/00054047.htm> or <ftp://ftp.cdc.gov/pub/Publications/mmwr/wk/mm4729.pdf>.

⁶ Townsend, J. L., "Cigarette Tax, Economic Welfare and Social Class Patterns of Smoking," *Applied Economics* 19: 355-365, 1987.

⁷ The average price of a pack of cigarettes is about \$3.65 per pack, multiplying that by 365 days in a year produces cigarette expenditures of \$1,332 per year. See, e.g., Orzechowski & Walker, *Tax Burden on Tobacco*, 2003.

⁸ See, e.g., Market Strategies poll of registered voters, February 24 – March 5, 1998) & Market Facts poll of the general public, September 19, 1997, both commissioned by the Campaign for Tobacco-Free Kids.

⁹ TFK factsheet, *Voters Across the Country Support Significant Increases in State Tobacco Taxes*, www.tobaccofreekids.org/research/factsheets/index18.shtml (showing significant support among smokers, ranging from 22% to 45%, for substantial cigarette-tax increases).

¹⁰ King, G., et al., "African Americans' Attitudes Toward Cigarette Excise Taxes," *American Journal of Public Health* 93(5): 828-834, May 2003, <http://www.ajph.org/content/vol93/issue5/index.shtml>.

¹¹ See, e.g., Hodgson, T., "Cigarette Smoking and Lifetime Medical Expenditures," *The Millbank Quarterly*, 1992; Nusselder, W.J., et al., "Smoking and the Compression of Morbidity," *Epidemiology and Community Health*, 2000.

¹² Zhang, X., et al., "Cost of Smoking to the Medicare Program, 1993," *Health Care Financing Review* 20(4): 1-19, Summer 1999. See, also, Miller, L., et al., "State Estimates of Total Medical Expenditures Attributable to Cigarette Smoking, 1993" *Public Health Reports* 113: 447-58, September/October 1998; CDC, "Medical Care Expenditures Attributable to Smoking – United States, 1993," *MMWR* 43(26): 1-4, July 8, 1994, www.cdc.gov/mmwr.

¹³ See, e.g., TFK factsheets, *Secondhand Smoke*, and *Harm to Kids from Secondhand Smoke*, www.tobaccofreekids.org/research/factsheets/index19.shtml.

¹⁴ Zhang et al. *Health Care Financing Review* 20(4): 1-19, Summer 1999.

¹⁵ Smokers have higher lifetime healthcare costs than nonsmokers, despite living shorter lives (Hodgson, 1992 & Nusselder, 2000). Roughly half of all smoking-caused health care costs are paid by the federal or states' governments, with much of that spent on treating low-income smokers through the Medicaid program (Zhang et al., Summer 1999; CDC, July 8, 1994). Any new government costs caused by people living longer because they no longer smoke would be more than offset by the health care savings, other reductions to smoking-caused costs, and the work productivity increases (and related new income tax revenues) from more people living longer, healthier, smoke-free lives. For full references, citations, and more details, see TFK, factsheet, *Immortality and Inaccuracy of the Death Benefit Argument*, www.tobaccofreekids.org/research/factsheets/index1.shtml.

¹⁶ Gruber, J. & S. Mullainathan, "Do Cigarette Taxes Make Smokers Happier?," National Bureau of Economic Research Working Paper No.w8872, April 2002, <http://econ-www.mit.edu/faculty/gruberj/files/happy81.pdf> and <http://papers.nber.org/papers/W8872>.

¹⁷ Junor, W. et al., *The Macroeconomic and Distributional Effects of Reduced Smoking Prevalence in New South Wales*, Cancer Council New South Wales, June 2004, <http://www.cancercouncil.com.au/editorial.asp?pageid=1891>.