State Tobacco Tax Increases Have a Minimal Impact on State Retailers and Jobs

Tobacco companies and convenience store owners often try to oppose state tobacco tax increases by claiming that the increases will hurt state businesses. They allege that the reduction in state tobacco sales due to the tax increase will reduce retailer profits and reduce related employment. The World Health Organization (WHO) calls this industry claim a "false choice" that "is based on faulty assumptions that 1) tobacco is a significant source of domestic employment; 2) job creation relies on tobacco consumption and 3) tobacco-related livelihoods are prosperous, sustainable and irreplaceable."[1] The industry's claim ignores a number of important facts and research findings.

Money spent on tobacco products in state retail stores does not disappear when state smokers quit or cutback but simply shifts to consumer spending on other products or services. This concept is recognized by many experts:

- In its analysis of the impact of prohibiting menthol cigarettes, FDA stated, "consumers who cease tobacco product use are expected to purchase other goods and services, resulting in transfers of revenue from cigarette producers back to consumers and then on to other sectors of the economy. This shift would result in reduced producer surplus for cigarette manufacturers and importers, but increased revenues and associated producer surplus for other industries."[2]
- In their 2017 monograph, The Economics of Tobacco and Tobacco Control, the National Cancer Institute (NCI) and WHO stated, "Decreases in tobacco expenditures do not disappear from the economy; rather, they are redistributed to the consumption and production of other goods and services, generating income and employment in other sectors."[3]

For example, a pack-a-day smoker who quits because of a state cigarette tax increase can save the more than $3,800 per year[4] that is no longer spent on cigarettes to spend on other goods and services, including other products sold in convenience stores. Tobacco users who quit or cut back do not just eliminate or reduce their expenditures on tobacco products. They also reduce household expenditures on other tobacco-caused costs, including health care costs. These savings will further increase general household spending on consumer goods.

Tobacco companies and their retailer allies know this. An industry-sponsored report from 1984 stated, "if consumers were faced with no available tobacco products, they would reallocate their spending to other goods and services. This reallocated spending would generate additional business opportunities in other sectors of the economy along with the associated employment and incomes."[5]

In fact, for years convenience stores have recognized the need to adapt to changing consumer demands in order to thrive as a business. A 2015 report commissioned by the National Association of Convenience Stores emphasized increasing healthy options in convenience stores, stating, "C-stores must understand that solely catering to their declining core audience [those purchasing cigarettes, beer, hot dogs, etc.] is not a growth strategy."[6]

Gross profits and profit margins from cigarette sales in convenience stores have been declining – in fact, in 2021, gross margins were higher from foodservice and packaged beverages than from cigarettes.[7] A separate analysis of convenience store data confirmed that cigarettes have the lowest profit margin compared to other products sold in convenience stores, including beverages and foodservice.[8] All this means that tobacco products generate less revenue for convenience stores than they have in the past. Revenue from tobacco product sales made up 34% of revenue from inside-store sales (that is, not including gas sales) and sales of all other products made up 66% in 2021; in 2000, tobacco product sales revenue made up 37.4% of inside-store sales revenue and all other products made up 62.6%.[9] A foodservice director for a convenience store chain put it succinctly, “The days of smokes and Cokes are coming to an end.”[10]

Convenience stores and other retailers exaggerate the business impact of state tobacco tax increases.

The NCI-WHO monograph stated, “With only a few exceptions, studies assessing the net employment impact of reductions in tobacco use resulting from tobacco control policies have concluded that the overall number of jobs would increase.” Further, it concluded, “In nearly all countries, national tobacco control policies will have either no effect or a net positive effect on overall employment because tobacco-related job losses will be offset by job gains in other sectors.”[11]

In Minnesota, a research firm paid by multiple tobacco companies and their allies released a report claiming that the state’s 2013 tobacco tax increase reduced employment in the state, particularly along counties bordering states with lower tax rates. However, actual data from the Minnesota Department of Employment and Economic Development did not support the claims made in the report.[12]

Declines in cigarette consumption do not reduce the number of convenience stores or convenience store jobs.

Research demonstrates that tobacco retail stores, including convenience stores, continue to thrive despite ongoing declines in cigarette sales.

A 2023 report found that while cigarette sales have been declining in the U.S., the number of convenience stores, total inside-store sales revenues, cigarette sales revenues and profits have all generally increased.[13] These findings are consistent with an earlier study showing a 12 percent increase in the number of tobacco retailers from 2000 to 2017, despite declines in smoking.[14] An older study looking at tobacco tax increases in all states over 13 years found no decline in the number of convenience stores after tobacco tax increases; in fact, the analysis revealed a slight increase.[15] Similarly, another study found that declines in cigarette consumption do not have a negative impact on employment in convenience stores.[16]

A study from Indiana found that because of the high toll of tobacco use, if tobacco was no longer used or grown there, the state’s economy would thrive. Specifically, lower health care costs would reduce business costs, allowing them to hire more workers and pay higher wages. Living longer means more spending and longer working lives.[17] A series of older studies showed that even if smoking were entirely eliminated in the United States, the net economic effect on each state would be positive, with more jobs created as well as other increases in productive economic activity.[18]

By reducing smoking, state tobacco tax increases reduce the smoking-caused expenditures of the state government and state businesses (including retailers).

Total smoking-caused health expenditures in the United States currently amount to more than $241 billion per year.[19] Federal, state, and local governments pay for a portion of those costs; the private sector (e.g., through worker health insurance) pays the rest. For example, Medicaid program spending on smoking-caused disease and health problems, by itself, totals $72.7 billion per year.[20] In addition, productivity losses caused by smoking-caused illness and premature death cost nearly $365 billion per year.[21] Reducing these smoking-caused costs and shifting the savings to more productive purposes and expenditures will improve the state’s budget, reduce state business costs, and further strengthen state economies.

Tobacco tax increases foster a healthier, more productive workforce.

Businesses can only prosper if they have healthy employees and can draw from a pool of healthy potential employees. Because tobacco use is the leading cause of death in the United States and reduces worker productivity, one of the best ways to improve the health and productivity of state and local residents is to reduce smoking by increasing tobacco product prices. Only those businesses that profit from the sale of tobacco products oppose policies to reduce tobacco use. It is deceptive to, on the one hand, talk about being a committed member of the community, while on the other hand oppose policies that will improve the health of the community.

Enhanced enforcement efforts can protect retailers and revenue.

States can protect revenue and retailer businesses by increasing tax enforcement and implementing high-tech tax stamps, which allow enforcement agencies to trace the sources of illegal products. Some retailers who illegally sell untaxed cigarettes, knowingly or not, are robbing the state of revenue and undercutting legitimate, law-abiding retailers. A 2007 report on tax evasion by the California Board of Equalization stated, "California cigarette tax evasion by retailers is a far larger revenue problem compared to casual cigarette tax evasion by consumers. Evasion by retailers is organized or systematic evasion, primarily by retailers who knowingly purchase contraband cigarettes."[22]

The tobacco industry enlists convenience stores to make their claims, even when evidence shows tobacco taxes don't hurt their businesses.

Paying retailer groups, like NACS and the National Association of Tobacco Outlets (NATO) to oppose tobacco tax increases enables the tobacco industry to put a local business face on its efforts to protect its bottom line at the expense of public health.[23]

Much of the money spent on tobacco by state consumers is exported to the states where the major tobacco manufacturers are located.

Raising the state's tobacco tax rates will shift some current state spending on cigarettes to other goods and services, thereby keeping more money in the state, which will strengthen the state's economy.

These economic arguments are just one part of the issue. More importantly, tobacco tax increases will reduce the unacceptably high amounts of smoking-caused death, disease and disability that take such a terrible toll on families in the state. Retail owners, just like other people, already have family members and friends who are suffering from smoking-caused illness or have died prematurely from it. But significantly raising tobacco tax rates will reduce the number of friends and family who suffer from smoking-caused harms or die from smoking before their time.

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