

Raising Tobacco Taxes: A Win-Win-Win



Increasing the tobacco tax is a win-win-win solution for states: a public health win that reduces smoking and saves lives, a financial win that reduces smoking-caused health care costs and raises much-needed revenue, and a political win because tobacco taxes have the strong support of the public. Even the tobacco industry acknowledges that raising tobacco taxes reduce smoking, which is why they fight so hard to oppose them.

Since January 1, 2000, 48 states and the District of Columbia have implemented or passed over 155 cigarette tax increases – more than quadrupling the average state cigarette tax from 43.4 cents to \$2.06 per pack today.

“It is clear that price has a pronounced effect on the smoking prevalence of teenagers, and that the goals of reducing teenage smoking and balancing the budget would both be served by increasing the Federal excise tax on cigarettes.”

Myron Johnson, Philip Morris Executive¹

Raising Tobacco Taxes Reduces Tobacco Use, Especially Among Kids

The Surgeon General has called raising prices on cigarettes “one of the most effective tobacco control interventions.”² Tobacco tax increases help make cigarettes too expensive for price-sensitive kids to buy and give smokers another incentive to quit. The 2014 Surgeon General’s report stated, “The evidence is sufficient to conclude that increases in the prices of tobacco products, including those resulting from excise tax increases, prevent initiation of tobacco use, promote cessation, and reduce the prevalence and intensity of tobacco use among youth and adults.”³ The general consensus is that nationally, every 10% increase in the real price of cigarettes reduces adult smoking by about 2%, reduces smoking among young adults by about 3.5%, reduces the number of kids who smoke by 6-7%, and reduces overall cigarette consumption by approximately 3-5%.⁴ Research studies have also found that cigarette price and tax increases work even more effectively to reduce smoking among pregnant women, Blacks, Hispanics, and lower-income smokers.⁵

Raising Tobacco Taxes Reduces Health Care Costs

Tobacco use costs about \$241 billion each year in health care expenses, more than 60% of it paid by taxpayers through government programs like Medicare and Medicaid.⁶ Smokers’ lifetime health care costs average about \$16,000, despite shorter life spans.⁷ Since many smoking-related diseases take years to develop, health care cost savings from a cigarette tax increase will be relatively small in the first few years after an increase; however, they grow quickly. These benefits will be even greater if a portion of the tobacco tax revenue is dedicated to support tobacco prevention and cessation programs. Because tobacco tax increases work best to reduce smoking among youth, lower-income smokers and pregnant women, those smoking declines will reduce state Medicaid program expenditures. Similarly, decreasing smoking rates among workers reduces public and private sector employers’ health insurance costs – while also decreasing business productivity losses from smoking-caused job performance declines and work absences, and from losing productive workers to smoking-caused disease or disability. Among the many other savings from smoking reductions are reduced property losses from smoking-caused fires, and reduced cleaning and maintenance costs.

Raising Tobacco Taxes Generates Revenue

Tobacco taxes are a reliable source of revenue for states.⁸ In fact, every state that has increased its cigarette tax by a significant amount has enjoyed a substantial increase in revenue, despite ongoing and tax-specific smoking declines and any ongoing or increased tax evasion.^{9,10} Put simply, the new revenue the state receives on each pack sold in the state after a cigarette tax increase always significantly outweighs the revenue losses from the decline in total pack sales caused by the rate increase. State cigarette and overall tobacco tax revenues are also much more predictable than state income tax or corporate tax revenues, which can decline sharply during recessionary periods.

While the tobacco industry and its allies argue that raising tobacco taxes hurts local businesses, money spent on cigarettes in state retail stores does not disappear when state smokers quit or cutback. They will simply shift some of their spending on cigarettes to other items, thereby keeping more money in the state. For example, pack-a-day smokers who quit because of a state cigarette tax increase can spend the more than \$3,800 per year¹¹ that they would have spent on cigarettes on other goods and services, including products sold in local convenience stores.

Raising Tobacco Taxes Has Widespread Public Support

The results of numerous polls conducted nationally and in states throughout the country have consistently shown broad, bipartisan voter support for tobacco tax increases. For example, a solid majority of Americans (69%) in a 2021 nationwide poll supported a \$1 per pack increase in the federal tobacco tax to help fund health care. This support extended across party lines and throughout all regions of the country. Just 30% opposed an increase in the tax.¹² An earlier poll in 2015 found that a solid majority of voters nationwide (63%) supported a \$1 per pack increase in the federal tax on cigarettes as part of an effort to reduce youth tobacco use. Just 35% of voters opposed the cigarette tax increase.¹³ A January 2010 poll found that 67% of voters nationwide favored a \$1 increase in their state tobacco tax rates.¹⁴

Support for tax increases has been strong and bipartisan, with state cigarette tax increases being passed into law 53 times under a Republican governor, 77 times under a Democratic governor, and once under an Independent governor.¹⁵ Similarly, increases were passed 33 times with a Republican-controlled legislature, 76 times with a Democratic-controlled legislature, and 21 times with state legislatures where the control of the state houses was split between the parties. Eleven of the increases since 2002 were passed by voters in ballot initiatives, including California's \$2.00 per pack increase that passed in November 2016, and Oregon and Colorado's increases that passed in November 2020.

¹ Philip Morris Research Executive Myron Johnston, "Teenage Smoking and the Federal Excise Tax on Cigarettes," September 17, 1981, Bates No. TA82034-TA82038.

² U.S. Department of Health and Human Services (HHS), *The Health Consequences of Smoking: 50 Years of Progress. A Report of the Surgeon General*, Atlanta, GA: U.S. Department of Health and Human Services, Centers for Disease Control and Prevention (CDC), National Center for Chronic Disease Prevention and Health Promotion, Office on Smoking and Health, 2014, https://www.ncbi.nlm.nih.gov/books/NBK179276/pdf/Bookshelf_NBK179276.pdf.

³ HHS, *The Health Consequences of Smoking: 50 Years of Progress. A Report of the Surgeon General*, 2014, https://www.ncbi.nlm.nih.gov/books/NBK179276/pdf/Bookshelf_NBK179276.pdf.

⁴ See, e.g., Chaloupka, F.J., "Macro-Social Influences: The Effects of Prices and Tobacco Control Policies on the Demand for Tobacco Products," *Nicotine and Tobacco Research* 1(Suppl 1):S105-9, 1999; other studies at <https://www.economicsforhealth.org/>; Tauras, J., "Public Policy and Smoking Cessation Among Young adults in the United States," *Health Policy* 6:321-32, 2004; Tauras, J, et al., "Effects of Price and Access Laws on Teenage Smoking Initiation: A National Longitudinal Analysis," National Bureau of Economic Research Working Paper 8331, June 2001, <http://www.nber.org/papers/w8331>. Chaloupka, F.J & Pacula, R, *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; Emery, S, et al., "Does Cigarette Price Influence Adolescent Experimentation?," *Journal of Health Economics* 20:261-270, 2001; Evans, W & Huang, L, *Cigarette Taxes and Teen Smoking: New Evidence from Panels of Repeated Cross-Sections*, working paper, April 15, 1998; Harris, J & Chan, S, "The Continuum-of-Addiction: Cigarette Smoking in Relation to Price Among Americans Aged 15-29," *Health Economics Letters* 2(2):3-12,

- February 1998, <http://www.mit.edu/people/jeffrey/HarrisChanHEL98.pdf>. HHS, *Reducing Tobacco Use: A Report of the Surgeon General*, Atlanta, Georgia: HHS, CDC, National Center for Chronic Disease Prevention and Health Promotion, Office on Smoking and Health, 2000, <https://digirepo.nlm.nih.gov/ext/document/101584932X181/PDF/101584932X181.pdf>.
- ⁵ See, e.g., 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>.
- Chaloupka, FJ & Pacula, R, *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. Oredein, T & Foulds, J, "Causes of the Decline in Cigarette Smoking Among African American Youths From the 1970s to the 1990s," *American Journal of Public Health* e1-e11, doi:10.2105/AJPH.2011.300289, August 18, 2011.
- ⁶ Shrestha, SS, et al., "Cost of Cigarette Smoking—Attributable Productivity Losses, U.S., 2018," *American Journal of Preventive Medicine* 63(4):478-485, 2022. Xu, X, et al., "U.S. healthcare spending attributable to cigarette smoking in 2014," *Preventive Medicine* 150:106529, 2021. HHS, *The Health Consequences of Smoking – 50 Years of Progress A Report of the Surgeon General*, 2014. Federal gov't reimburses the states, on average (weighted), for 59.9% of their Medicaid expenditures (<https://www.govinfo.gov/content/pkg/FR-2024-11-29/pdf/2024-27910.pdf>). National health care costs are in 2018 dollars.
- ⁷ Hodgson, TA, "Cigarette Smoking and Lifetime Medical Expenditures," *The Milbank Quarterly* 70(1), 1992. CDC, "Projected Smoking-Related Deaths Among Youth—United States," *MMWR* 45(44):971-974, November 8, 1996, <http://www.cdc.gov/mmwr/preview/mmwrhtml/00044348.htm>. Health care costs are adjusted to 2018 dollars using the price indexes for Gross Domestic Products from the Bureau of Economic Analysis. See also CTFK factsheet, *Health Costs of Smokers vs. Former Smokers vs. Non-Smokers and Related Savings from Quitting*, <http://www.tobaccofreekids.org/research/factsheets/pdf/0327.pdf>.
- ⁸ CTFK, *Tobacco Tax Increases Are a Reliable Source of Substantial New State Revenue*, <http://www.tobaccofreekids.org/research/factsheets/pdf/0303.pdf>.
- ⁹ CTFK, *Raising State Cigarette Taxes Always Increases State Revenues (and Always Reduces Smoking)*, <http://www.tobaccofreekids.org/research/factsheets/pdf/0098.pdf>.
- ¹⁰ In rare cases, a small state cigarette tax increase might not bring in enough new revenue to make up for significant ongoing state pack sales and revenue declines caused by other factors. For example, after New Jersey increased its \$2.40 per pack cigarette tax by another 17.5¢ in 2006 (which amounted to only a 3% increase to the average pack price), its total cigarette tax revenues still declined somewhat over the following year. But without the tax increase the state's cigarette tax revenues would have dropped much more sharply. In every other instance besides NJ in 2006, state cigarette tax rate increases have been followed by significant net increases to annual state tax revenues.
- ¹¹ Based on average savings across all states. Actual amount would vary based on state of residence. See also, CTFK factsheet, *Immediate Smoker Savings from Quitting in Each State*, <https://www.tobaccofreekids.org/research/factsheets/pdf/0337.pdf>.
- ¹² Nationwide survey of 1,009 U.S. adults conducted August 17-22, 2021 via the SSRS telephone omnibus.
- ¹³ Nationwide survey of 1,000 registered voters conducted February 2-25, 2015 by The Mellman Group and Public Opinion Strategies.
- ¹⁴ Nationwide survey of 847 registered voters conducted January 20-24, 2010 by International Communications Research.
- ¹⁵ SC's increase in 2010 and MD's increase in 2021 were vetoed by their governors, but were overridden by the legislature.