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New Study Confirms that 50-cent Cigarette Tax Increase Will Produce Large, Sustained Revenue Increase in South Carolina

Columbia, SC – A report released today by a tobacco policy expert at the University of Illinois at Chicago confirms that a significant cigarette tax increase in South Carolina would produce a large, sustained increase in state tobacco tax revenues.

Dr. Frank Chaloupka developed the report in conjunction with the Campaign for Tobacco Free Kids and the South Carolina Tobacco Collaborative. The key findings of the report are:

- Significant cigarette excise tax increases generate significant increases in cigarette tax revenues.
- Revenues several years after the tax increase remain significantly higher than revenues prior to the tax increase and changes over time after the increase are consistent with changes that would result from underlying downward trends in cigarette smoking.
- Revenues in states that dedicate some revenues for comprehensive tobacco control programs in the years following the implementation of these programs are still significantly higher than revenues prior to the tax increase and program implementation.

Chaloupka highlights South Carolina's experience with cigarette taxes following minor increases in 1969 and 1977. He notes that "when tax rates have increased in South Carolina, as in other states, there have been sharp and sustained revenue increases. Most recently, South Carolina, like other states, has experienced larger than normal declines in smoking, pack sales, and cigarette tax revenues because of the large federal cigarette tax increase in early 2009. This same basic pattern, with large amounts of new state revenues in every future year, would occur again if South Carolina increased its cigarette tax rate significantly in 2010."

Chaloupka defines a "significant cigarette tax increase" as one of 50 cents or more.

According to the Campaign for Tobacco-Free Kids, a 50-cent cigarette tax increase would prevent 23,300 South Carolina kids from becoming smokers and prompt 12,800 adult smokers to quit. At the same time, the state would generate approximately \$123.4 million in new annual revenue while realizing \$529.4 million in long-term health care savings.

In general, state cigarette and other tobacco tax revenues increase sharply following a significant increase to a state's cigarette and other tobacco product tax rates (despite the smoking declines prompted by the tax increase and any related increases in smuggling or tax evasion), and then tend to decline annually by one to three percent in subsequent years as cigarette smoking and other tobacco use continues to go down in response to other factors (e.g. increased information on the health consequences of tobacco use and stronger public policies targeting tobacco use).

The study provides direct evidence from actual state experiences that confirms that significant cigarette tax increases have always produced substantial amounts of new revenues (compared to what the state would have received without the increase), both immediately and over extended periods of time, and despite any and all related decreases in taxed state pack sales.

Dr. Douglas P. Woodward, Director of the Division of Research and Professor of Economics at the Darla Moore School of Business at the University of South Carolina, reviewed the report and said: “The study presents a solid case for the revenue benefits of the cigarette tax, based on an exhaustive review of the available evidence across states. South Carolina would be well advised to raise the tax for both economic and health reasons.”

Opponents of an increased cigarette tax in South Carolina often cite concerns that a significant tax would hurt the state’s businesses. On the contrary, Chaloupka finds that “the reductions in smoking from state cigarette and other tobacco product tax increases will produce other economic benefits for the state, including increased productivity in government and private sector workforces as fewer employees miss work because of smoking-caused sick days or cigarette breaks or have their productive work lives interrupted or cut short by smoking-caused disability or premature death.” He further notes other economic benefits including “reduced property losses from smoking-caused fires, and reduced cleaning and maintenance costs caused by smoking.”

South Carolina legislators whose districts border North Carolina and Georgia also have asserted that having a higher tax than a neighboring state would cause South Carolina to lose revenue from other states’ residents who supposedly purchase their cigarettes in South Carolina. Chaloupka’s report disputes that claim:

“It is also worth noting that when South Carolina last increased its cigarette tax rate, from 6 to 7 cents per pack, the state received net new revenues despite the fact that its new tax rate was higher than the cigarette tax rates in bordering North Carolina, which had a tax rate of 2 cents per pack (but today has a tax rate of 45 cents per pack). Nevertheless, after South Carolina’s cigarette tax increase, pack sales in North Carolina did not increase, but actually declined. That indicates that there was no significant increase in cross-border purchases in North Carolina by South Carolina smokers after the last South Carolina cigarette tax increase.”

Dr. Jim F. Thrasher, assistant professor of Health Promotion, Education and Behavior in the Arnold School of Public Health at the University of South Carolina, studied with Dr. Chaloupka at the Institute for Health Research and Policy at the University of Illinois. The two have written several articles together.

“Dr. Chaloupka’s research on the effects of tax and price on cigarette consumption is respected as definitive among public health and economic researchers alike,” said Thrasher. “This study confirms what the public health community in South Carolina has long asserted – a significant cigarette tax increase will protect the health of our youth while generating a stable and predictable revenue stream to meet our state’s healthcare needs.”

Dr. Frank Chaloupka is a Distinguished Professor of Economics at the University of Illinois at Chicago’s College of Liberal Arts & Sciences and its School of Public Health’s Division of Health Policy and Administration.

The South Carolina Tobacco Collaborative is a statewide consortium of the leading public health organizations, businesses and individuals committed to reducing the toll of tobacco use in South Carolina. The group has advocated for a significant increase to South Carolina’s lowest in the nation cigarette tax since 2000.

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