

CAMPAIGN For TOBACCO-FREE Kids®

BENEFITS FROM A CIGARETTE TAX INCREASE IN NORTH CAROLINA

Current State Cigarette Tax: 5 Cents Per Pack (50th among all states)

Smoking-caused costs in state per taxed pack sold: \$6.59

Average retail price per pack: \$3.33 (state share from excise and sales taxes: \$0.27)

Annual health care expenditures in the North Carolina directly caused by tobacco use: \$2.26 billion

Total state Medicaid program smoking costs each year: \$707.8 million

State cigarette tax revenue each year: \$38.8 million (2003)

Last North Carolina Cigarette Tax Increase: 8/1/1991

Projected Benefits From Increasing the State Cigarette Tax By 75 Cents Per Pack

- **New state cigarette tax revenues each year: \$346.5 million**
- **Pack sales decline in state: -316.5 million**
- **Percent decrease in youth smoking: 15.7%**
- **Increase in total number of kids alive today who will not become smokers: 101,000**
- **Number of current adult smokers in the state who would quit: 70,000**
- **Number of smoking-affected births avoided over next five years: 13,100**
- **Number of current adult smokers saved from smoking-caused death: 15,400**
- **Number of kids alive today saved from premature smoking-caused death: 32,300**
- **5-Year healthcare savings from fewer smoking-affected pregnancies & births: \$15.0 million**
- **5-year healthcare savings from fewer smoking-caused heart attacks & strokes: \$31.7 million**
- **Long-term healthcare savings in state from adult & youth smoking declines: \$1.79 billion**

These projections are fiscally conservative because they include a generous adjustment for lost state pack sales (and tax revenues) from new tax avoidance efforts after the tax increase by continuing in-state smokers, fewer sales to smokers from other states, and fewer sales to supply informal smugglers, criminal smuggling organizations, or multistate internet sellers. The projections are based on research findings that a 10% cigarette price increase reduces youth smoking rates by 6.5%, adult rates by 2%, and total consumption by 4% (but adjusted down to account for tax evasion effects), and assume that the state tax will keep up with inflation. Nevertheless, the tax increase will both reduce smoking levels and increase state revenues because the higher tax per pack brings in more new revenue than is lost from the drop in the number of packs sold. Sales tax is 7.0%. Because of the generous assumptions re lost state pack sales to smugglers and tax avoiders, cigarette-related sales tax revenues are projected to decline despite the fact that the cigarette tax increase will increase state sales tax revenue per pack sold (the state sales tax percentage applies to the total retail price of a cigarette pack, including the cigarette-tax portion of the price). Kids stopped from smoking and dying are from all kids alive today. Long-term savings accrue over lifetimes of persons who stop smoking or never start because of tax increase.

Sources. Chaloupka, F., "Macro-Social Influences: Effects of Prices and Tobacco Control Policies on the Demand for Tobacco Products," *Nicotine & Tobacco Research*, 1999, and other price studies at <http://tigger.uic.edu/~fjc> and www.uic.edu/orgs/impacteen. Orzechowski & Walker, *Tax Burden on Tobacco*, 2003. USDA Economic Research Service, www.ers.usda.gov/Briefing/tobacco. State tax offices. Farrelly, M. et al., "Cigarette Smuggling Revisited," U.S. Centers for Disease Control & Prevention (CDC), in press. CDC, *State Highlights 2004: Sustaining State Programs for Tobacco Control*, 2004, <http://www.cdc.gov/tobacco/datahighlights/index.htm>. Miller, P., et al., "Birth and First-Year Costs for Mothers and Infants Attributable to Maternal Smoking," *Nicotine & Tobacco Research* 3(1): 25-35, February 2001. Lightwood, J. & S. Glantz, "Short-Term Economic and Health Benefits of Smoking Cessation - Myocardial Infarction and Stroke," *Circulation* 96(4): 1089-1096, August 19, 1997, <http://circ.ahajournals.org/cgi/content/full/96/4/1089>. Hodgsen, T., "Cigarette Smoking and Lifetime Medical Expenditures," *The Millbank Quarterly* 70(1), 1992. U.S. Census. Nat'l Center for Health Statistics.

For more information, see the Campaign fact sheets -- including *Raising State Tobacco Taxes Always Reduces Tobacco Use (& Always Increases State Revenues)* -- at <http://tobaccofreekids.org/research/factsheets/index.php?CategoryID=18> and <http://tobaccofreekids.org/reports/prices>.

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