



## INCREASING THE FEDERAL CIGARETTE TAX REDUCES SMOKING (AND THE CIGARETTE COMPANIES KNOW IT)

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***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.***

Philip Morris Research Executive Myron Johnston,  
"Teenage Smoking and the Federal Excise Tax on Cigarettes"  
PM Document No. 1003478193/96 (September 17, 1981)

The big cigarette companies have opposed tobacco tax increases by arguing that raising cigarette prices does not reduce smoking. But the companies' internal documents, disclosed in the tobacco lawsuits, show that they have known for decades that raising cigarette taxes is one of the most effective ways to prevent and reduce smoking, especially among kids. In 1982, for example, an RJR tobacco company document stated, "If prices were 10% higher, 12-17 incidence [the percentage of kids who smoke] would be 11.9% lower."<sup>1</sup> A 1993 Philip Morris internal document stated, "A high cigarette price, more than any other cigarette attribute, has the most dramatic impact on the share of the quitting population. . . price, not tar level, is the main driving force for quitting."<sup>2</sup>

The companies also regularly admit the effectiveness of tax increases to deter smoking in their required filings with the U.S. Securities and Exchange Commission.

- Philip Morris: *Tax increases are expected to continue to have an adverse impact on sales of tobacco products by our tobacco subsidiaries, due to lower consumption levels...* [10-Q Report, November 3, 2008]
- Lorillard Tobacco: *We believe that increases in excise and similar taxes have had an adverse impact on sales of cigarettes. In addition, we believe that future increases, the extent of which cannot be predicted, could result in further volume declines for the cigarette industry, including Lorillard Tobacco...* [10-Q Report, November 4, 2008]
- R.J. Reynolds: *Together with manufacturers' price increases in recent years and substantial increases in state and federal taxes on tobacco products, these developments have had and will likely continue to have an adverse effect on the sale of tobacco products.* [10-Q Report, October 24, 2008]

### **Economic Research on Tobacco Tax Increases Reducing Tobacco Use Levels**

Numerous economic studies in peer-reviewed journals have documented the impact of cigarette tax increases and other price hikes on both adult and underage smoking. The general consensus from these studies is that every 10 percent increase in the real price of cigarettes will reduce the prevalence of adult smoking by approximately three to five percent and reduce teen smoking by about seven percent.<sup>3</sup> This research indicates that raising the federal cigarette tax rate to produce a 10 percent increase in cigarette prices would reduce the number of current youth smokers by more than 350,000. Research studies have also found that:

- Cigarette price and tax increases work even more effectively to reduce smoking among males, Blacks, Hispanics, and lower-income smokers.<sup>4</sup>
- A cigarette tax increase that raises prices by ten percent will reduce smoking among pregnant women by seven percent, preventing thousands of spontaneous abortions and still-born births, and saving tens of thousands of newborns from suffering from smoking-affected births and related health consequences.<sup>5</sup>
- Higher taxes on smokeless tobacco reduce its use, particularly among young males; and increasing cigar prices through tax increases reduce adult and youth cigar smoking.<sup>6</sup>
- Cigarette price increases not only reduce youth smoking but also reduce both the number of kids who smoke marijuana and the amount of marijuana consumed by continuing users.<sup>7</sup>

- By reducing smoking levels, cigarette tax increases reduce secondhand smoke exposure among nonsmokers, especially children and pregnant women.

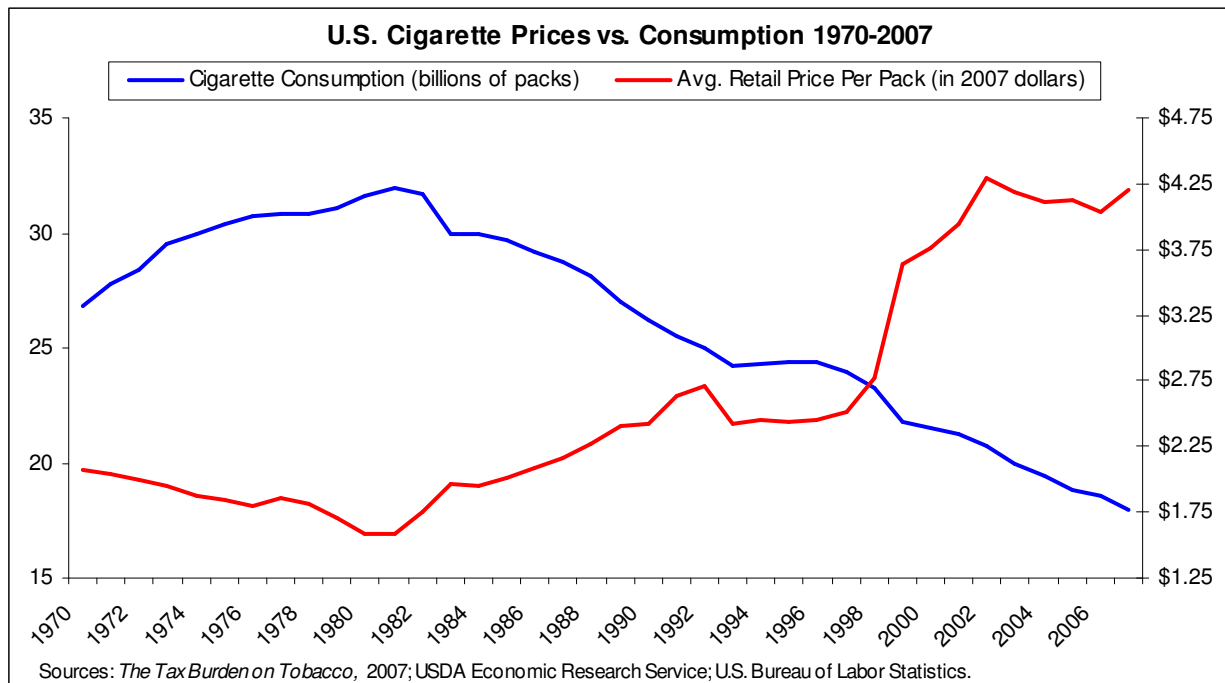
### **State Experiences with Cigarette Tax Increases Shows They Reduce Smoking**

Evidence shows that state cigarette tax increases are prompting many smokers to quit or cutback – directly translating into lower future smoking rates.<sup>8</sup> For example, the Wisconsin Quit Line received a record-breaking 20,000 calls in the first two months after its \$1.00 per cigarette pack increase (it typically receives 9,000 calls per year).<sup>9</sup> And in Washington State, adult smoking from the year before its 60-cent cigarette tax increase in 2002 to the year afterwards declined from 22.6 to 19.7 percent, reducing the number of adult smokers in the state by more than 100,000, despite overall population increases.<sup>10</sup>

Even when the federal tobacco tax increase went into effect on April 1, 2009, state quitlines received record numbers of calls from people who wanted assistance in quitting tobacco use. In fact, Michigan's state quitline had to temporarily shut down because it ran out of funds after offering free nicotine replacement therapy to callers who were quitting in preparation for the federal tobacco tax increase.<sup>11</sup>

### **Increasing U.S. Cigarette Prices and Declining Consumption**

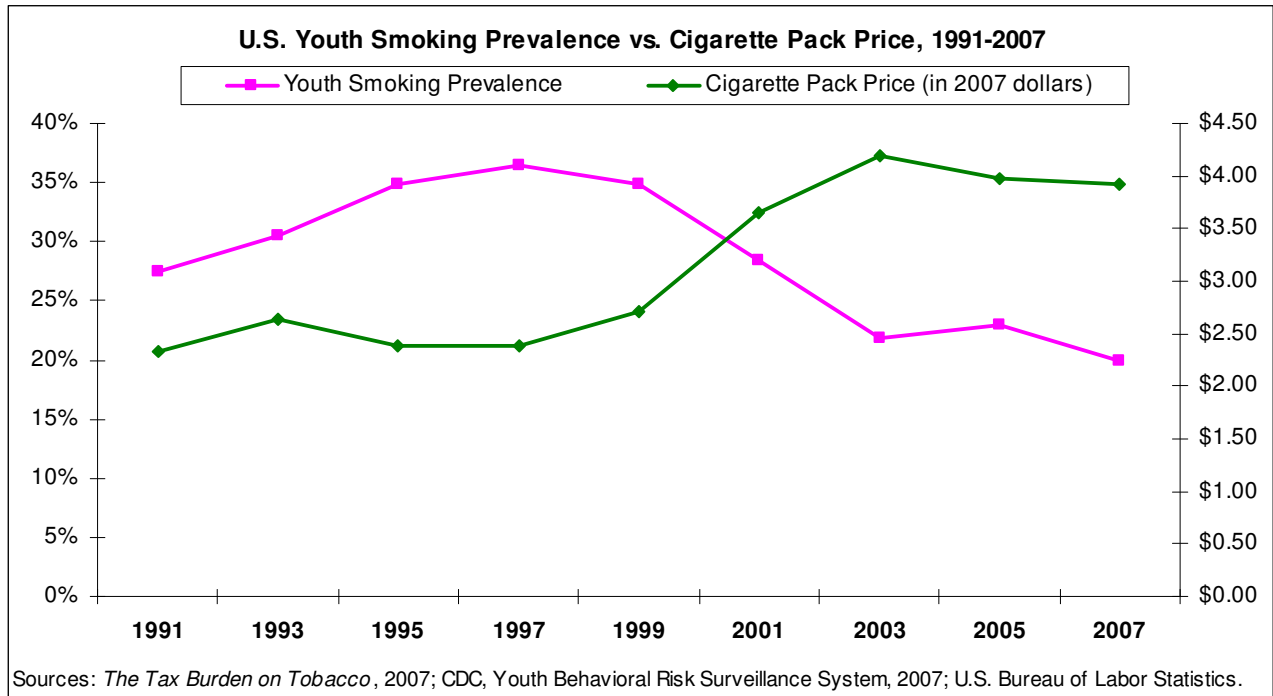
Although there are many other factors involved, comparing the trends in cigarette prices and overall U.S. cigarette consumption from 1970 to 2007 shows that there is a strong correlation between increasing prices and decreasing consumption.



U.S. cigarette prices are largely controlled by the cigarette companies' price-setting decisions. But from 1970 to 2007, the federal tax on cigarettes also increased from eight cents to 39 cents per pack (and the average state cigarette tax increased from 10 cents to \$1.07 per pack). Without these tax increases, U.S. smoking levels would certainly be much higher.

### **Prices and Youth Smoking Rates**

The chart below shows how closely youth smoking prevalence is tied to cigarette pack prices. As prices climbed in the late 1990s and early 2000s, youth smoking rates declined, but as the price decreased between 2003 and 2005 (along with funding for tobacco prevention programs in many states), youth rates increased. Even the slight increase in price between 2005 and 2007 corresponds with a decline in youth smoking rates.



### **Expert Conclusions: Cigarette Tax Increases Reduce Smoking**

- In December 2008, the Goldman Sachs tobacco industry outlook for 2009 concluded that a 61-cent federal cigarette tax rate increase would reduce cigarette consumption in the USA by seven percent.<sup>12</sup> Other Wall Street tobacco industry analysts have also recently concluded that an increase to the federal cigarette tax would significantly reduce smoking levels.<sup>13</sup>
- In its 2007 report, *Ending the Tobacco Problem: A Blueprint for the Nation*, the National Academy of Sciences' Institute of Medicine recommends raising cigarette taxes in states with low rates and the federal cigarette excise tax and indexing them to inflation, to reduce cigarette consumption and to provide money for tobacco control. The report states, "an increase in the federal excise tax would have the dual purposes of reducing consumption and making more funds available for tobacco control programs," thus "the committee thinks that the federal tobacco excise tax rate should be increased substantially – at least on the order of \$1.00 per pack..."<sup>14</sup>
- The President's Cancer Panel's 2007 report, *Promoting Healthy Lifestyles*, advised an increase in the federal tobacco tax, stating, "Increasing this tax would not only contribute to reducing smoking initiation and prevalence, but potentially would be an important source of revenue for federally-funded tobacco use prevention and control efforts."<sup>15</sup>
- In 2007, the Joint Committee on Taxation projected that a 61-cent increase in the federal cigarette tax rate would reduce the number of smokers in the United States by 1.9 million.<sup>16</sup>
- The 2003 *National Action Plan for Tobacco Cessation* from the Subcommittee on Cessation of the Interagency Committee on Smoking and Health recommended, "the [federal] excise tax increase has the following virtues: (1) of all the recommended components of the National Action Plan for Tobacco Cessation, research suggests that the excise tax increase would have the largest immediate impact on tobacco use; (2) it would pay for all other plan elements [to help smokers quit]; and (3) it would satisfy the need expressed repeatedly in public testimony for a stable, dedicated funding source for tobacco cessation initiatives."<sup>17</sup>
- The 2000 U.S. Surgeon General's Report, *Reducing Tobacco Use*, found that raising tobacco-product prices decreases the prevalence of tobacco use, particularly among kids and young adults, and that tobacco tax increases produce "substantial long-term improvements in health." From its review of existing research, the report concluded that raising tobacco taxes is one of the most effective tobacco prevention and control strategies.<sup>18</sup>

- In its 1998 report, *Taking Action to Reduce Tobacco Use*, the National Academy of Sciences' Institute of Medicine concluded that "the single most direct and reliable method for reducing consumption is to increase the price of tobacco products, thus encouraging the cessation and reducing the level of initiation of tobacco use."<sup>19</sup>

### **Maximizing the Public Health Benefits (and New Revenues) From Tobacco Tax Rate Increases**

When the federal excise tax rate on cigarettes is increased, raising the federal tax rates on all other tobacco products to parallel will prevent any revenue losses from smokers switching from cigarettes to other lower-taxed or lower-priced tobacco products. This kind of switching has been quite pronounced lately – largely because of much lower federal and state tax rates on cigars, roll-your-own tobacco, and smokeless tobacco. In just the first five months of 2008 compared to 2007, cigarette sales dropped by 4.5 percent nationwide while moist snuff sales increased by 5.6 percent, RYO tobacco sales rose by 23 percent, and small cigar sales increased by 21.2 percent.<sup>20</sup>

In addition, small tax rate increases (less than about 10 percent of the average pack price) do not usually produce significant public health benefits or cost savings because cigarette companies can easily offset the beneficial impact of such small rate increases with temporary price cuts, coupons, and other promotional discounting. Likewise, splitting a tax rate increase into separate, smaller increases in successive years will sharply diminish or eliminate the public health benefits and related cost savings (as well as reduce the total amount of new revenues).

*Campaign for Tobacco-Free Kids, April 13, 2009*

**More information on federal tobacco taxes is available at**

**[http://www.tobaccofreekids.org/facts\\_issues/fact\\_sheets/policies/tax/us\\_federal/](http://www.tobaccofreekids.org/facts_issues/fact_sheets/policies/tax/us_federal/) and [http://www.tobaccofreekids.org/what\\_we\\_do/federal\\_issues/federal\\_tobacco\\_taxes/](http://www.tobaccofreekids.org/what_we_do/federal_issues/federal_tobacco_taxes/).**

<sup>1</sup> Burrows, DS, "Estimated Change In Industry Trend Following Federal Excise Tax Increase," RJ Reynolds, September 20, 1982, Access Date: August 14, 2001, Bates No.: 501988846-8849.

<sup>2</sup> Schwab, C, "Cigarette Attributes and Quitting," Philip Morris, March 4, 1993, Access Date: August 14, 2001, Bates No. 2045447810.

<sup>3</sup> See, e.g., Tauras, J, et al., "Effects of Price and Access Laws on Teenage Smoking Initiation: A National Longitudinal Analysis," Bridging the Gap Research, ImpacTeen, April 24, 2001; Chaloupka, F, "Macro-Social Influences: The Effects of Prices and Tobacco Control Policies on the Demand for Tobacco Products," *Nicotine and Tobacco Research*, 1999; Chaloupka, F & 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; and other price studies at <http://tigger.uic.edu/~fjc> and [www.uic.edu/orgs/impacteen](http://www.uic.edu/orgs/impacteen).

<sup>4</sup> 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* 47(29):605-609, July 31, 1998, <http://www.cdc.gov/mmwr/preview/mmwrhtml/00054047.htm>; Chaloupka, F & 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.

<sup>5</sup> Ringel, J & Evans, W, "Cigarette Taxes and Smoking During Pregnancy," *American Journal of Public Health*, 2001 See also, TFK Factsheet, *Harm Caused by Pregnant Women Smoking or Being Exposed to Secondhand Smoke*, <http://www.tobaccofreekids.org/research/factsheets/pdf/0007.pdf>.

<sup>6</sup> Chaloupka, F, Tauras, J & Grossman, M, "Public Policy and Youth Smokeless Tobacco Use," *Southern Economic Journal* 64(2): 503-16 (October 1997). Ringel, JS, Wasserman, J, & Andreyeva, T, "Effects of Public Policy on Adolescents' Cigar Use: Evidence From the National Youth Tobacco Survey" *American Journal of Public Health* 95:995-998, 2005.

<sup>7</sup> Chaloupka, F, et al., *Do Higher Cigarette Prices Encourage Youth to Use Marijuana?*, National Bureau of Economic Research, Working Paper No. 6939 (February 1999).

<sup>8</sup> For more examples of state cigarette taxes reducing smoking rates while increasing revenues, see TFK Factsheets, *Raising Cigarette Taxes Reduces Smoking, Especially Among Kids (and the Cigarette Companies Know It)*, <http://www.tobaccofreekids.org/research/factsheets/pdf/0146.pdf>, *Raising State Cigarette Taxes Always Increases State Revenues and Always Reduces Smoking*, <http://www.tobaccofreekids.org/research/factsheets/pdf/0098.pdf>, and *Quitlines Help Smokers Quit*, <http://www.tobaccofreekids.org/research/factsheets/pdf/0326.pdf>.

<sup>9</sup> "Calls to Wisconsin Tobacco Quit Line breaks all records," *The Dunn County News*, March 12, 2008.

<sup>10</sup> CDC, Current Adult Smokers, Behavioral Risk Factor Surveillance System (BRFSS).

<sup>11</sup> Michigan Department of Community Health, Michigan Tobacco Quit Line Shuts Down, March 6, 2009, <http://www.michigan.gov/mdch/0,1607,7-132-8347-210883--,00.html>

<sup>12</sup> Goldman Sachs Global Investment Research, *Americas: Tobacco*, December 10, 2008.

<sup>13</sup> See, e.g., Morgan Stanley Research, *Tobacco: Volumes are Weaker & likely to Remain So = In-Line View*, April 29, 2008.

<sup>14</sup> Institute of Medicine (IOM), *Ending the tobacco problem: A blueprint for the nation*, Washington, DC: The National Academies Press, 2007, <http://www.iom.edu/CMS/3793/20076/43179.aspx>.

<sup>15</sup> President's Cancer Panel, *Promoting Healthy Lifestyles*, 2006-2007 Annual Report, August 2007, <http://deainfo.nci.nih.gov/advisory/pcp/pcp07rpt/pcp07rpt.pdf>.

<sup>16</sup> Joint Committee on Taxation, *Modeling the Federal Revenue Effects of Proposed Changes in Cigarette Excise Taxes*, JCX-101-07, October 19, 2007, <http://www.house.gov/jct/x-101-07.pdf>.

<sup>17</sup> Interagency Committee on Smoking and Health Subcommittee on Cessation, *Preventing 3 Million Premature Deaths Helping 5 Million Smokers Quit: A National Action Plan for Tobacco Cessation*, February 13, 2003, <http://www.ctri.wisc.edu/Researchers/NatActionPlan%2002-04.pdf>.

<sup>18</sup> U.S. Department of Health and Human Services (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, [http://www.cdc.gov/tobacco/data\\_statistics/sgr/sgr\\_2000/index.htm](http://www.cdc.gov/tobacco/data_statistics/sgr/sgr_2000/index.htm).

<sup>19</sup> IOM, *Taking Action to Reduce Tobacco Use*, Washington, DC: National Academy Press, 1998, [http://www.nap.edu/catalog.php?record\\_id=6060](http://www.nap.edu/catalog.php?record_id=6060).

<sup>20</sup> U.S. Alcohol and Tobacco Tax and Trade Bureau. See also, TFK Factsheet, *How to Make State Cigar Tax Rates Fair and Effective*, <http://www.tobaccofreekids.org/research/factsheets/pdf/0335.pdf>, and *The Problem with Roll-Your-Own (RYO) Cigarettes*, <http://www.tobaccofreekids.org/research/factsheets/pdf/0336.pdf>.