



FEDERAL TOBACCO TAX INCREASES WILL BENEFIT LOWER-INCOME HOUSEHOLDS

Because smoking levels are highest among people with low incomes, the cigarette companies try to argue that cigarette tax increases are regressive taxes that fall disproportionately hard on lower-income persons. But this argument turns reality upside down. Higher smoking rates among lower-income groups means they are now suffering the most from smoking and will, consequently, benefit the most from any effective new measures to reduce smoking, including increased Federal tobacco tax rates.

The cigarette companies also say they oppose higher cigarette taxes because they care about low-income families. But these are the same companies that have been preying on low-income and poor communities for decades. In fact, from 1998 to 2002 the cigarette companies increased the prices they charge for their cigarettes by more than \$1.00 per pack (and by more than two cents for every cent needed to cover all of their costs from the state tobacco lawsuit settlements).¹ The cigarette companies have no problem with levying new charges on low-income smokers when it increases their own profits. They only oppose the new charges when someone else (like the Federal government) gets the new revenues, instead.

The reason the tobacco companies make their regressivity arguments and oppose tobacco tax rate increases is simple: tobacco tax increases reduce current tobacco use levels and stop kids from starting, thereby shrinking the companies' profits.² The companies' anti-tax arguments also fail to account for the following facts.

Low-income smokers are much more likely to quit because of tobacco tax increases than higher-income smokers. Federal cigarette tax increases work much more powerfully to prompt lower-income smokers to quit or cutback and to stop lower-income kids from ever starting than they do among higher-income smokers and youths.³ For example, smokers with family incomes at or below the national median are four times as likely to quit because cigarette price increases as those with higher incomes.⁴ In fact, conservative estimates show that at least three out of every four smokers who would quit in response to a 61-cent federal cigarette tax rate increase would have a household income of less than 200% of the federal poverty line. Accordingly, cigarette tax increases offer one of the best ways to help low-income families that currently suffer from direct and secondhand smoking to escape from the smoking-caused health risks, disease, and related costs – and lower-income smokers and families will be much more likely to have those harms and costs eliminated or reduced by a cigarette tax increase than similar families with higher-incomes. Those cost reductions (including reduced family expenditures on cigarettes) will also have a more powerful, beneficial impact on the financial health of the lower-income households compared to those with higher incomes.

Most smokers are not low-income and Federal tobacco tax increases shift the overall tobacco tax burden even more toward higher-income smokers. Currently, 60 percent of all smokers have incomes of 200 percent of the federal poverty line or more – which means that most smokers currently paying the federal cigarette tax are not poor.⁵ Moreover, because more lower-income smokers than higher-income smokers will quit or cutback because of cigarette tax increases, any significant increase to the Federal cigarette tax rate will increase the portion of total cigarette tax revenues that are paid for by higher-income smokers and reduce the portion paid by lower-income smokers.

Federal cigarette tax increases give many current smokers a “tax cut.” Many current smokers (especially those with low incomes) will completely avoid the new tobacco tax rates by quitting and others will reduce the impact of the tobacco tax rate increases by cutting back on their tobacco use or switching from premium to lower-cost brands. Those that quit because of the tax increase will end up saving all the money they used to spend on tobacco products (not just the money they used to spend to cover federal tobacco taxes), and some of those who cut back or switch to cheaper brands will also reduce their overall expenditures. A study in England, for example, found that low-income smokers actually reduced their overall expenditures on cigarettes in response to increased cigarette taxes.⁶ In the United States, every pack-a-day smoker who quits in response to a Federal cigarette tax increase will not only avoid the tax increase but also save more than \$1,650 per year from no longer buying cigarettes (with additional savings

from also stopping other smoking-related expenditures).^{*} Other smokers who quit or cut back would obtain similar savings. As the wife of a couple that quit smoking in response to a cigarette tax increase in Kentucky stated, "It's easier paying the bills, and groceries. You're not pinching pennies just to see what you can and can't buy," she said. "With two people not smoking now, it made a big difference."⁷

Low-income voters strongly support tobacco tax increases. In poll after poll, lower-income Americans (along with all other Americans) strongly support higher tobacco product taxes.⁸ A 2007 nationwide survey found that voters with yearly incomes less than \$30,000 support a 75-cent increase in the Federal cigarette tax nearly two-to-one (62 percent vs. 32 percent).⁹ In a nationwide poll of African Americans, more than 73 percent said that they did not think that tobacco tax increases were unfair to African Americans and more than 57 percent said that they would not be opposed to increasing cigarette taxes even if they knew that low-income smokers would be hit the hardest.¹⁰

Federal tobacco tax increases improve the health of low-income smokers and their families and significantly reduce their related costs. Those who stop smoking in response to cigarette tax increases greatly improve their own health, which significantly reduces health costs. Smokers die younger than nonsmokers, but because of their higher rates of illness and disability they still have substantially higher average annual and lifetime health care costs.¹¹ Nationwide, smoking-caused health care costs total more than \$96 billion per year, with billions being paid directly by smokers through direct health care payments and increased health insurance premiums.¹² Smokers who quit or cutback will also help reduce the amount of secondhand smoke their family, friends, and coworkers are exposed to – thereby producing additional health improvements and related cost savings for their families and communities.¹³

- Even those low-income smokers who do not quit or cutback will still benefit because the cigarette tax increase will reduce smoking among their family members and friends. The tax increase might not get them to quit, but it might stop their kids from falling victim to tobacco use.
- Smokers who do not reduce their smoking because of a cigarette tax increase will also still benefit economically, along with every other federal or state taxpayer. Right now, smoking produces a "hidden tax" that totals more than \$40 billion per year to pay for smoking-caused state and federal health care costs.¹⁴ Smoking and other tobacco use declines caused by federal tobacco tax rate increases will directly reduce these tobacco-caused tax burdens for all taxpayers.¹⁵
- An April 2002 research study actually found that, overall, both Canadian and U.S. smokers are significantly happier when cigarette excise taxes increase, perhaps because the increases help them quit or cutback or increase their resolve to do so soon.¹⁶
- As an Australian economic study of the impact of a 25 percent decrease in smoking concluded: *"In households where smoking ceased, substantial benefits would accrue in terms of the weekly funds released for alternative purchases. Added to these would be the benefits of improved health and life expectancy resulting from smoking cessation. Relative to household income, the greatest benefits, in terms of additional available expenditure, would accrue to the poorest 20 per cent of households."*¹⁷

Low-income families and communities would also benefit directly from using Federal tobacco tax increases to reauthorize and expand SCHIP. The pending bipartisan SCHIP legislation uses tobacco tax increases to fund increased healthcare coverage for currently uninsured low-income children. Accordingly, lower-income families, lower-income households and communities would disproportionately benefit not only from the revenue-raising tobacco tax rate increases of the SCHIP package but also from its program expenditures.

Given the strong support for cigarette tax increases among low-income persons and the enormous benefits those tax increases bring to low-income smokers, families, and communities, the big cigarette companies' efforts to "protect" low-income communities from higher cigarette taxes is not only patronizing and misdirected but also hostile to lower-income interests. The cigarette companies' regressivity argument should be seen for exactly what it really is: a self-serving smokescreen designed to keep smoking levels up and protect cigarette company profits.

^{*} The average price of a pack of cigarettes is about \$4.54 per pack, multiplying that by 365 days in a year produces cigarette expenditures of \$1,657.10 per year. See, e.g., Orzechowski & Walker, *Tax Burden on Tobacco*, 2006.

For more information on Federal tobacco tax increases, see the Campaign's website at:
<http://www.tobaccofreekids.org/research/factsheets/index.php?CategoryID=11>

¹ Campaign for Tobacco-Free Kids (TFK) Factsheets, *U.S. Cigarette Companies' Settlement-Related Price Hikes Excessive*, www.tobaccofreekids.org/research/factsheets/pdf/0071.pdf, and *Cigarette Tax Increases Vs. Cigarette Company Price Increases (1993-2007)*, www.tobaccofreekids.org/research/factsheets/pdf/0091.pdf.

² TFK Factsheet, *Increasing the Federal Cigarette Tax Reduces Smoking (and the Cigarette Companies Know It)*, <http://www.tobaccofreekids.org/research/factsheets/pdf/0021.pdf>.

³ See, e.g., 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 (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. Farrelly, M., et al., "Responses to Increases in Cigarette Prices by Socioeconomic Characteristics," *Southern Economic Journal* 68(1): 156-165, 2001.

⁴ CDC, "Responses to Cigarette Prices By Race/Ethnicity, Income, and Age Groups—United States 1976-1993," *MMWR* 47(29):605-609, July 31, 1998, <http://www.cdc.gov/mmwr/preview/mmwrhtml/00054047.htm>. M. Farrelly, et al., "Responses to Cigarette Prices by Socioeconomic Characteristics," *Southern Economic Journal*, 68(1): 156-65, 2001.

⁵ CDC, National Center for Health Statistics, *Summary: Health Statistics for U.S. Adults, 2006*, Table 24, Provisional Report No. 10(235), Aug. 2007.

⁶ Townsend, JL, "Cigarette Tax, Economic Welfare and Social Class Patterns of Smoking," *Applied Economics* 19:355-365, 1987.

⁷ Goetz, D, "Cigarette sales fall: Ky. tax increase leads some to quit," *The Courier-Journal*, March 11, 2006.

⁸ See, e.g., TFK Factsheet, *Voters Across the Country Support Significant Increases in Tobacco Taxes*, <http://www.tobaccofreekids.org/research/factsheets/pdf/0026.pdf>.

⁹ The Mellman Group, "Nationwide Poll Shows Overwhelming Support for Increasing Federal Cigarette Tax," <http://www.tobaccofreekids.org/reports/prices/NationalTobaccoTaxMemo.pdf>.

¹⁰ King, G, et al., "African Americans' Attitudes Toward Cigarette Excise Taxes," *American Journal of Public Health* 93(5):828-834, May 2003, <http://www.ajph.org/content/vol93/issue5/index.shtml>.

¹¹ See, e.g., Hodgson, T, "Cigarette Smoking and Lifetime Medical Expenditures," *The Millbank Quarterly*, 1992; Nusselder, WJ, et al., "Smoking and the Compression of Morbidity," *Epidemiology and Community Health*, 2000.

¹² CDC, *Sustaining State Programs for Tobacco Control: Data Highlights 2006* [and underlying CDC data], http://www.cdc.gov/tobacco/data_statistics/state_data/data_highlights/2006/index.htm.

¹³ See, e.g., TFK Factsheets on Secondhand Smoke, www.tobaccofreekids.org/research/factsheets/index19.shtml.

¹⁴ Zhang, X, et al., "Cost of Smoking to the Medicare Program, 1993," *Health Care Financing Review* 20(4):1-19, Summer 1999.

¹⁵ Smokers have higher lifetime health care costs than nonsmokers, despite living shorter lives (Hodgson, TA, "Cigarette Smoking and Lifetime Medical Expenditures," *Millbank Quarterly* 70(1):81-115, 1992; & Nusselder, WJ, et al., "Smoking and the Compression of Morbidity," *Journal of Epidemiology and Community Health* 54(8):566-74, August 2000). Roughly half of all smoking-caused health care costs are paid by the federal or states' governments, with much of that spent on treating low-income smokers through the Medicaid program (Zhang, X, et al., "Cost of Smoking to the Medicare Program, 1993," *Health Care Financing Review* 20(4):1-19, Summer 1999; CDC, "Medical-Care Expenditures Attributable to Cigarette Smoking—United States, 1993," *MMWR* 43(26):469-472, July 8, 1994, <http://www.cdc.gov/mmwr/preview/mmwrhtml/00031803.htm>) Any new government costs caused by people living longer because they no longer smoke would be more than offset by the health care savings, other reductions to smoking-caused costs, and the work productivity increases (and related new income tax revenues) from more people living longer, healthier, smoke-free lives. For full references, citations, and more details, see TFK Factsheet, *Immortality and Inaccuracy of the Death Benefit Argument*, <http://www.tobaccofreekids.org/research/factsheets/pdf/0036.pdf>.

¹⁶ Gruber, J & Mullainathan, S, "Do Cigarette Taxes Make Smokers Happier?," National Bureau of Economic Research, Working Paper No. w8872, April 2002, <http://econ-www.mit.edu/faculty/gruberj/files/happy81.pdf> and <http://papers.nber.org/papers/W8872>.

¹⁷ Junor, W, et al., *The Macroeconomic and Distributional Effects of Reduced Smoking Prevalence in New South Wales*, Cancer Council New South Wales, June 2004, <http://www.cancerCouncil.com.au/editorial.asp?pageid=1891>.