

CAMPAIGN For TOBACCO-FREE Kids®

USING STATE CIGARETTE TAX INCREASES TO REPLACE ANY REDUCED OR DELAYED SETTLEMENT PAYMENTS

There has been a lot of talk lately about the possibility that one or more of the cigarette companies might declare bankruptcy in order to escape some of their financial obligations from the *Engle* class-action lawsuit in Florida and the state tobacco settlements. Whether or not this is a realistic possibility, each state could quickly and easily make up any reductions or delays to its settlement payments from the cigarette companies simply by increasing its cigarette taxes.

Even if any of the cigarette companies successfully declared bankruptcy, it is highly unlikely that it would go out of business or stop selling cigarettes. Given the enormous, predictable revenues from cigarette sales that each of the companies enjoys, any bankruptcy proceedings would focus on reorganizing the companies' debts and liabilities while they continued to sell cigarettes and bring in income. Even if a cigarette companies did somehow go out of business, the other cigarette companies would quickly take over its market share.

Given the addictive power of cigarettes, for the foreseeable future they will continue to be sold by someone no matter what else happens. And that means that the states can always replace any lost, reduced, or delayed tobacco settlement payments by raising their cigarette taxes.

States	Average Annual State Tobacco Settlement Revenues 2001-2010 (millions of dollars)	Current State Cigarette Tax Rate (Cents Per Pack)	State Cigarette Tax Increase Required to Replace All Settlement Payments (Cents Per Pack)	State Cigarette Tax Increase Required to Replace A 15 Percent Cut in Payments (Cents Per Pack)
Alabama	120.0	16.5	32	5
Alaska	29.4	100	74	11
Arizona	115.6	58	48	7
Arkansas	62.5	31.5	27	4
California	946.1	87	68	10
Colorado	106.3	20	41	6
Connecticut	144.2	50	70	11
Delaware	30.8	24	39	6
Washington, DC	46.3	65	202	30
Florida	523.2	33.9	48	7
Georgia	181.8	12	30	4
Hawaii	50.1	100	144	22
Idaho	28.5	28	37	5
Illinois	347.1	58	44	7
Indiana	155.9	15.5	24	4
Iowa	70.6	36	32	5
Kansas	65.7	24	35	5
Kentucky	130.6	3	24	4
Louisiana	171.6	20	46	7
Maine	59.6	74	61	9
Maryland	173.7	66	57	9
Massachusetts	307.6	76	96	14
Michigan	324.7	75	55	8

Using Cigarette Tax Increases to Replace Settlement Payments / 2

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Minnesota	256.4	48	80	12
Mississippi	162.1	18	67	10
Missouri	170.2	17	32	5
Montana	33.7	18	52	8
Nebraska	45.4	34	42	6
Nevada	47.2	35	35	5
New Hampshire	51.0	52	30	5
New Jersey	289.9	80	60	9
New Mexico	46.2	21	52	8
New York	946.7	111	97	14
North Carolina	175.4	5	23	3
North Dakota	31.2	44	74	11
Ohio	375.3	24	38	6
Oklahoma	83.8	23	27	4
Oregon	90.1	68	40	6
Pennsylvania	428.4	31	46	7
Rhode Island	55.4	71	76	11
South Carolina	89.4	7	23	3
South Dakota	27.4	33	51	8
Tennessee	180.3	13	34	5
Texas	536.5	41	46	7
Utah	37.2	51.5	53	8
Vermont	34.7	44	73	11
Virginia	151.4	2.5	26	4
Washington	164.9	82.5	64	10
West Virginia	70.7	17	41	6
Wisconsin	158.2	59	42	6
Wyoming	20.1	12	49	7

By simultaneously raising its taxes on other tobacco products, the states would collect even larger new replacement revenues.

To be conservative, these calculations assume that each state's future cigarette sales will be ten percent lower than current levels. They also account for the fact that a ten percent increase in cigarette prices will reduce overall consumption by about four percent (and reduce youth smoking by roughly seven percent).ⁱ

The average annual settlement payment amounts reflect what each state is scheduled to receive each year from its settlement agreement with the cigarette companies prior to the automatic upward inflation adjustments and the downward adjustments to account for national cigarette sales declines.

The National Center for Tobacco-Free Kids, April 28, 2000

ⁱ For a survey of the research literature on how cigarette price increases reduce smoking, 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* (forthcoming); Chaloupka, F. J. & R. Pacula, *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). See, e.g., also, Purcell, W. D., *Changing Prices, Changing Cigarette Consumption*, Virginia Tech Rural Economic Analysis Program (May 1999).