



STATE CIGARETTE TAX INCREASES & STATE TOBACCO SETTLEMENT REVENUES

An increase to a state's cigarette tax will have no direct or significant effect on the annual amounts the state is receiving in tobacco-settlement payments.

No State Tax Offset Provision in the Settlement Agreements. There is nothing in the agreements that reduces state settlement payments because of state cigarette tax increases.¹

State Cigarette Tax Increase's and the Volume Adjustment. The state tobacco settlements include a volume adjustment that reduces the cigarette companies' payments to the states whenever the four major companies' nationwide cigarette sales decline below pre-settlement levels. While a state's cigarette tax increase can substantially reduce smoking within its borders, its effect on nationwide cigarette sales – and on the volume adjustment – is much weaker, if not trivial.

Even California, the biggest state, accounts for only 6.5 percent of total U.S. cigarette sales. Accordingly, if it increased its cigarette tax enough to reduce smoking in that state by a 25 percent (which would require a massive increase), that would reduce nationwide cigarette sales and each state's future settlement revenues by only about one or two percent.² Smaller states could actually eliminate all smoking within their borders without having any significant effect on nationwide cigarette sales, the volume adjustment, or MSA payments to the state.

State Cigarette Tax Increases Produce Significant State Benefits. State cigarette tax increases always increase state excise tax revenues, reduce smoking (especially among kids and low-income families), and reduce the state's smoking-caused healthcare costs.³ Moreover, the new annual cigarette tax revenues and the new reductions to the state's annual smoking-caused expenditures from a cigarette tax increase will dwarf any related marginal increase to the MSA volume adjustment. Indeed, any state cigarette tax increase large enough to produce a change to the MSA volume adjustment percentage of any significance would produce massive new state revenues and smoking-reduction cost savings.

Because the volume adjustment to state settlement payments is concerned only with nationwide cigarette sales declines, the big winners will be those states that reduce their smoking rates more sharply than the overall nationwide decline. They will get the exact same percentage volume adjustment reductions to their settlement payments as other states but they will enjoy above-average smoking-reduction benefits and cost savings.

Campaign for Tobacco-Free Kids, December 30, 2007 / Ann Boonn

¹ The federal offset provision in the state tobacco settlements – which provided that settlement payments to the states would be reduced on a dollar-for-dollar basis if the states received any new funds from a federal cigarette tax increase – is no longer operative.

² Numerous studies have established that for every ten percent a state tax increase raises the average price of a pack of cigarettes in the state it will also reduce overall cigarette consumption in the state by about four percent. See, e.g., Chaloupka, FJ, "Macro-Social Influences: The Effects of Prices and Tobacco Control Policies on the Demand for Tobacco Products," *Nicotine and Tobacco Research* 1(Suppl 1):S105-9, 1999, and other price studies at <http://tigger.uic.edu/~fjc>. The volume adjustment reduces state settlement receipts by roughly 98% of any declines in the nationwide cigarette sales of the four major cigarette companies since before the settlement.

³ See, e.g., Campaign for Tobacco-Free Kids factsheets, *Raising State Tobacco Taxes Always Increases State Revenues and Always Reduces Tobacco Use, State Cigarette Tax Rates and Projected Benefits from Increasing Them*, and related factsheets http://www.tobaccofreekids.org/facts_issues/fact_sheets/policies/tax/us_state_local/.