



TEN-YEAR REVENUE PROJECTIONS FOR NEW FEDERAL CIGARETTE TAX INCREASES

Because of various factors, such as ongoing smoking declines and reduced cigarette consumption caused by state and local cigarette tax increases and by government tobacco prevention programs, federal cigarette tax revenues will decline steadily if the federal excise tax rate is not increased, and inflation will further erode the government's cigarette tax revenues. The following table shows the estimated amounts of additional, new revenue the federal government would receive each year, above existing levels, from cigarette excise tax increases in the designated amounts. The current federal cigarette tax is 39¢ per pack. Parallel increases to federal tax rates on other tobacco products at the same time would raise substantial additional new revenue.

Projected New Federal Revenue from Cigarette Tax Rate Increases (Billions of Dollars)

Increase (per pack)	New Rate	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Total
50¢	89¢	\$7.86	\$7.75	\$7.63	\$7.52	\$7.40	\$7.29	\$7.18	\$7.07	\$6.97	\$6.86	\$73.54

The projections assume that above and beyond the pack sales declines prompted by the tax rate increases, themselves, total cigarette tax revenues will decrease by 1.5% per year because of continuing declines in smoking rates and cigarette pack sales. If pack sales declined by more than 1.5% per year (e.g., because some of the new funds were invested in expanded federal efforts to prevent and reduce tobacco use) the new revenues in future years would be somewhat smaller. But those reductions to the size of the new revenue amounts, caused by sharper smoking declines, would be more than offset by the related reductions in smoking-caused expenditures, such as those made by the Medicare and Medicaid programs.

Projections assume that the tax increases are implemented at the beginning of the first year. The projections are based on research findings that each 10% cigarette price increase reduces youth smoking rates by 6.5%, adult rates by 2%, and total consumption by 4%, and also include adjustments to account for possible lost pack sales through increased tax avoidance and cigarette smuggling that might be prompted by the cigarette tax increases. [See TFK Factsheet, *Proposed Federal Measures to Reduce Cigarette Smuggling and Protect Federal Revenues*, <http://tobaccofreekids.org/research/factsheets/pdf/0226.pdf>.] Despite the smoking reductions and pack sales declines prompted by the cigarette tax increases, federal revenues will still increase substantially because an increased tax per pack always brings in more new revenue than is lost from the corresponding decreases in the number of packs sold and taxed.

Raising the federal cigarette tax by a significant amount (e.g., by 31¢ or more) would also prompt significant smoking declines, especially among kids, and reduce smoking-caused illness, death, and related smoking-caused costs. Currently, federal smoking-caused Medicaid costs total more than \$16.0 billion per year, with smoking-caused Medicare costs totaling more than \$24 billion per year. To reduce smoking-caused costs through passing only a small cigarette tax increase (e.g., 11¢), some of the new revenues must be allocated to expand existing efforts to prevent and reduce tobacco use and its harms and costs.

The average state cigarette tax rate is now \$1.073 per pack, and is expected to increase further before the end of the year. The average retail price of a pack of cigarettes in the United States is now approximately \$4.34, without sales tax. According to the U.S. Centers for Disease Control & Prevention, smoking-caused health costs and productivity declines nationwide total \$10.28 per pack sold in the United States.

Sources: Orzechowski & Walker, *Tax Burden on Tobacco*, 2006; 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 www.uic.edu/orgs/impactteen and <http://tigger.uic.edu/~fjc>; USDA Economic Research Service, www.ers.usda.gov/Briefing/tobacco; Farelly, M, et al., *State Cigarette Excise Taxes: Implications for Revenue and Tax Evasion*, RTI International, May 2003, http://www.rti.org/pubs/8742_Excise_Taxes_FR_5-03.pdf.

Campaign for Tobacco-Free Kids, July 1, 2007 / Eric Lindblom

For more information on cigarette tax increases, see <http://tobaccofreekids.org/reports/prices> and <http://tobaccofreekids.org/research/factsheets/index.php?CategoryID=11>.