



## INCREASING THE FEDERAL TOBACCO TAX REDUCES TOBACCO USE (AND THE TOBACCO 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<sup>1</sup>

Peer-reviewed economic studies and past experiences show beyond a doubt that tobacco tax increases reduce tobacco use, especially among youth. In fact, data show that the most recent federal tobacco tax increase (on April 1, 2009) effectively reduced youth tobacco use rates. The tobacco industry and its allies continually oppose tobacco tax increases because they know that price increases will reduce the number of “replacement smokers” that they need to sustain their business as well as encourage current smokers to quit.

### **Economic Research Confirms that Tobacco Tax Increases Reduce Tobacco Use**

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 ten 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>2</sup> This research indicates that raising the federal cigarette tax rate to produce a ten percent increase in cigarette prices would reduce the number of current youth smokers by more than 350,000. Research studies have also found that:

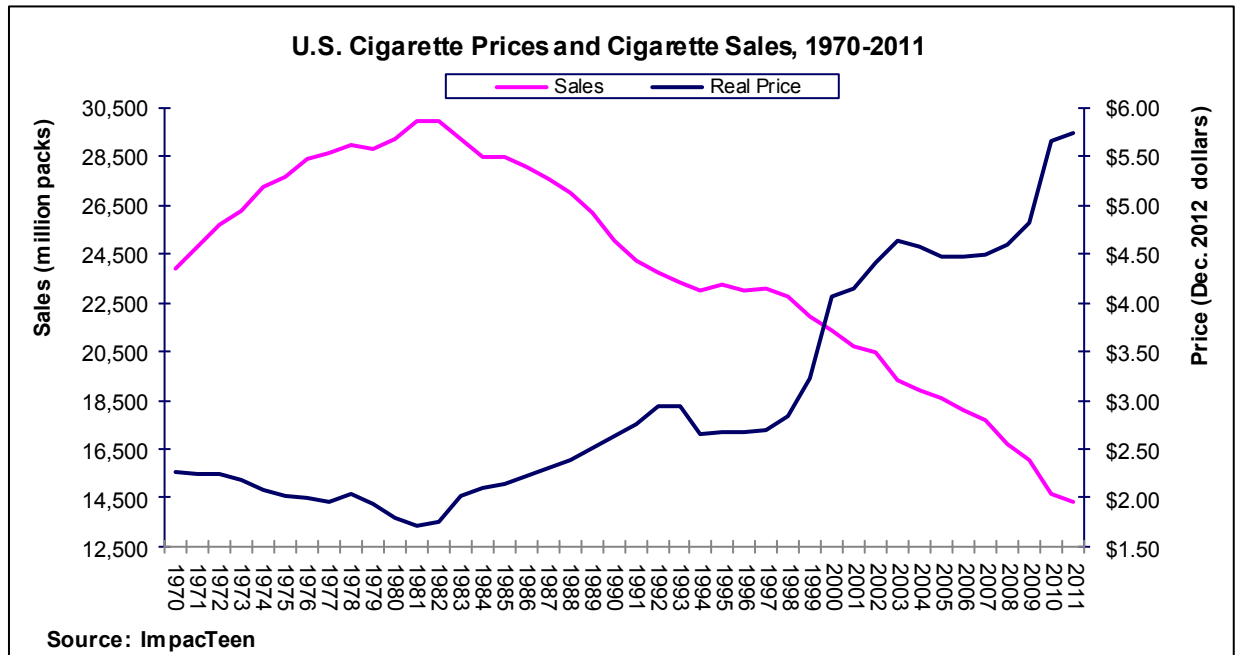
- Cigarette price and tax increases work even more effectively to reduce smoking among males, Blacks, Hispanics, and lower-income smokers.<sup>3</sup>
- A cigarette tax increase that raises prices by ten percent will reduce smoking among pregnant women by seven percent, preventing thousands of miscarriages and still-born births, and saving tens of thousands of newborns from suffering from smoking-affected births and related health consequences.<sup>4</sup>
- Higher taxes on smokeless tobacco reduce its use, particularly among young males; and increasing cigar prices through tax increases reduces adult and youth cigar smoking.<sup>5</sup>
- By reducing smoking levels, cigarette tax increases reduce secondhand smoke exposure among nonsmokers, especially children.

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

Comparing the trends in cigarette prices and overall U.S. cigarette consumption from 1970 to 2011 shows a strong correlation between increasing prices and decreasing consumption (Figure 1). As a result of the 2009 federal tax increase, cigarette pack sales declined by a record 8.3 percent in 2009 – the largest decline since 1932.

U.S. cigarette prices are largely controlled by the cigarette companies’ price-setting decisions. But from 2000 to 2011, the federal tax on cigarettes also increased from 34 cents to \$1.01 per pack (and the average state cigarette tax increased from 42 cents to \$1.46 per pack). Without these tax increases, U.S. smoking levels would certainly be much higher.

Figure 1.

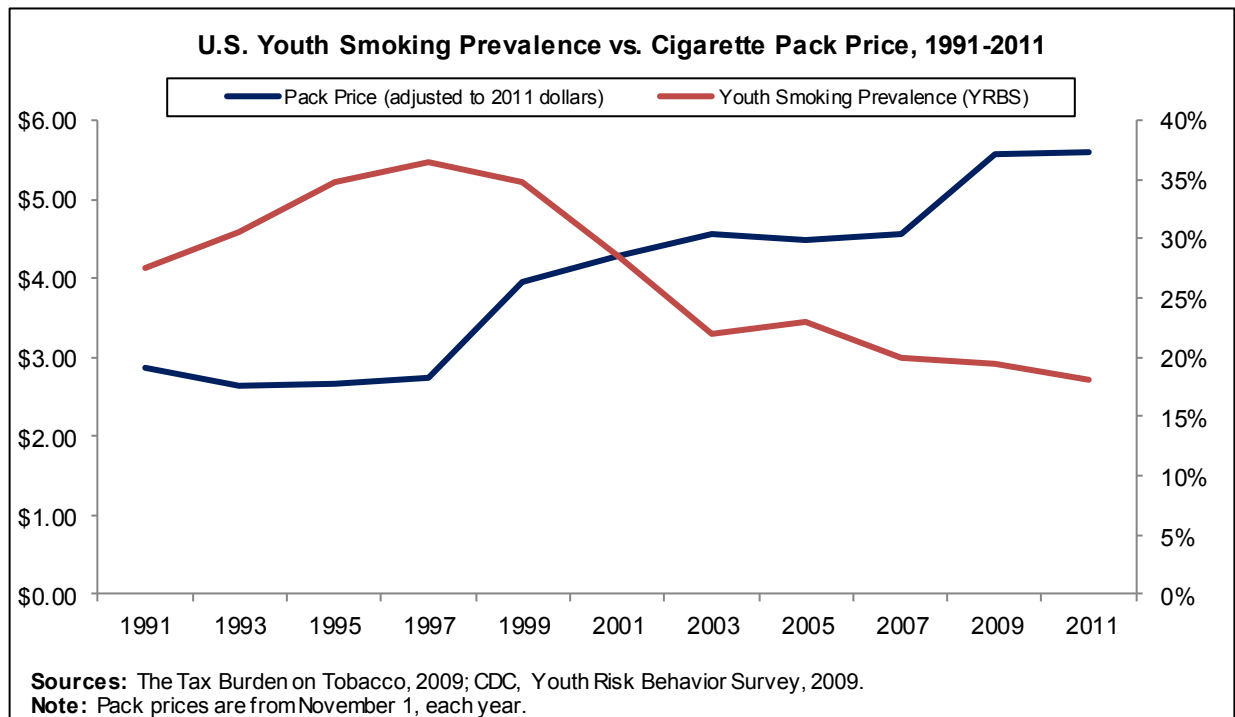


**Prices and Youth Smoking Rates**

Figure 2 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 sharply, but as the price decreased between 2003 and 2005 (along with funding for tobacco prevention programs in many states), youth rates increased. After the most recent 61.66-cent federal cigarette tax rate increase on April 1, 2009, youth rates declined, as expected.

Further, researchers looked more closely at the effect of the 2009 federal tobacco tax increase and found a substantial and immediate impact on youth smoking and smokeless tobacco use. The percentage of students who reported smoking in the past 30 days dropped between 9.7 percent and 13.3 percent immediately following the tax increase, resulting in an estimated 220,000 to 287,000 fewer current smokers among middle and high school students in May 2009. Similarly, youth smokeless tobacco use declined between 16 to 24 percent immediately after the rate increase, resulting in an estimated 135,000 to 203,000 fewer youth smokeless tobacco users in the same period.<sup>6</sup>

Figure 2.



### **State Experiences with Cigarette Tax Increases Shows They Encourage Quit Attempts and Reduce Smoking**

Evidence shows that cigarette tax increases are prompting many smokers to quit – directly translating into lower future smoking rates.<sup>7</sup> For example, when the 2009 federal tobacco tax increase went into effect, state quitlines received record numbers of calls from people who wanted assistance in quitting tobacco use. 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>8</sup> And in Washington State, adult smoking declined from 22.6 to 19.7 percent in the year after its 60 cent cigarette tax increase in 2002, reducing the number of adult smokers in the state by more than 100,000.<sup>9</sup> 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>10</sup> These are but a few of dozens of examples of declines in smoking following state tobacco tax increases. Indeed, the ten states with the lowest smoking rates have an average state tobacco tax of \$2.32, compared to an average tax of 72 cents in the ten states with the highest smoking rates.

### **Expert Conclusions: Tobacco Tax Increases Reduce Use**

- The 2012 Surgeon General's report, *Preventing Tobacco Use Among Youth and Young Adults*, concluded that "Most of the research over the past decade has concluded that increases in cigarette prices lead to reductions in the prevalence of smoking and its intensity among youth and young adults. The report further stated, "Tobacco control policies, including higher taxes on smokeless tobacco...are effective in reducing the use of smokeless tobacco among adolescent males...."<sup>11</sup>
- 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>
- The 2003 *National Action Plan for Tobacco Cessation* from the Interagency Committee on Smoking and Health, appointed by the Department of Health and Human Service Secretary Tommy Thompson, 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>16</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>17</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>18</sup>

### **Tobacco Companies Know Tobacco Tax Increases Reduce Tobacco Use**

Tobacco companies have opposed tobacco tax increases by arguing that raising prices does not reduce smoking. But the companies’ internal documents that were disclosed in the tobacco lawsuits and financial filings with the U.S. Securities and Exchange Commission 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. For instance, the quote at the beginning of this factsheet demonstrates that knowledge.<sup>19</sup> This is, of course, why they strongly oppose tobacco tax increases. For example, in 2012, the big tobacco companies spent more than \$45 million to defeat a tobacco tax increase initiative in California and have spent similar amounts or more (per capita) in other states.

Since the companies know that price increases will reduce use, they use a variety of strategies to reduce product prices, including multi-pack offers (i.e., buy-one-get-one-free), buy-downs (where the company contracts with retailers to offer lower prices on products), and coupons – all to encourage tobacco users to continue using and make the products more affordable to youth. Those efforts seem to be effective; the 2012 Surgeon General’s report stated, “it can be concluded that the industry’s extensive use of price-reducing promotions has led to higher rates of tobacco use among young people than would have occurred in the absence of these promotions.”<sup>20</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 a parallel level will prevent smokers from simply switching to other lower-taxed tobacco products and thus reducing the health and revenue benefits of the tax. This kind of switching has been quite pronounced lately – largely because of much lower federal and state tax rates on cigars, pipe tobacco, and smokeless tobacco. Tobacco companies have even manipulated their products by changing the wrapper, increasing the weight, and changing the labels to meet definitions of other tobacco products in order to evade taxes. As a result of these evasion strategies, sales of large cigars increased, while sales of small cigars decreased, even though the cigars sold remained largely the same. Similarly, sales of products labeled as “pipe tobacco,” which was really just roll-your-own tobacco in re-named bags increased dramatically while sales in the RYO category declined.<sup>21</sup> The U.S. Government Accountability Office (GAO) found that the higher tax rates on cigarettes and small cigars compared to large cigars

“created an incentive for producers to modify products to qualify as large cigars according to TTB [U.S. Alcohol and Tobacco Tax and Trade Bureau].”<sup>22</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 11, 2013**

**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> Johnston, M, “Teenage Smoking and the Federal Excise Tax on Cigarettes,” Philip Morris USA Memo, September 17, 1981, Bates No. 2022249717-2022249721.

<sup>2</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>3</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>4</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>5</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>6</sup> Huang, J & Chaloupka, FJ, The Impact of the 2009 Federal Tobacco Excise Tax Increase on Youth Tobacco Use, National Bureau of Economic Research Working Paper 18026, April 2012, <http://www.nber.org/papers/w18026>.

<sup>7</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>8</sup> “Calls to Wisconsin Tobacco Quit Line breaks all records,” *The Dunn County News*, March 12, 2008.

<sup>9</sup> CDC, Current Adult Smokers, Behavioral Risk Factor Surveillance System (BRFSS).

<sup>10</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>11</sup> U.S. Department of Health and Human Services (HHS), *Preventing Tobacco Use Among Youth and Young Adults: A Report of the Surgeon General*, Atlanta, Georgia: HHS, CDC, National Center for Chronic Disease Prevention and Health Promotion, Office on Smoking and Health, 2012, [http://www.cdc.gov/tobacco/data\\_statistics/sgr/2012/index.htm](http://www.cdc.gov/tobacco/data_statistics/sgr/2012/index.htm).

<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> 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>17</sup> 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>18</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>19</sup> For additional quotes, see TFK factsheet, *In Their Own Words: What the Tobacco Companies Say About Tobacco Tax Increases and Price*, <http://www.tobaccofreekids.org/research/factsheets/pdf/0373.pdf>.

<sup>20</sup> HHS, *Preventing Tobacco Use Among Youth and Young Adults: A Report of the Surgeon General*, 2012, [http://www.cdc.gov/tobacco/data\\_statistics/sgr/2012/index.htm](http://www.cdc.gov/tobacco/data_statistics/sgr/2012/index.htm).

<sup>21</sup> GAO, *Tobacco Taxes: Large Disparities in Rates for Smoking Products Trigger Significant Market Shifts to Avoid Higher Taxes*, April 2012, <http://www.gao.gov/assets/600/590192.pdf>.

<sup>22</sup> GAO, *Illicit Tobacco: Various Schemes Are Used to Evade Taxes and Fees*, March 2011, <http://www.gao.gov/new.items/d11313.pdf>.