



## TOBACCO TAX INCREASES BENEFIT LOWER-INCOME SMOKERS AND FAMILIES

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The Surgeon General has called raising prices on cigarettes “one of the most effective tobacco control interventions” because increasing price is proven to reduce smoking, especially among kids and among those with low incomes.<sup>1</sup>

While there is clear evidence on the effectiveness of tax increases, some have concerns about the potential for a disproportionate impact among the poor because smoking levels are highest among people with low incomes. However, research has demonstrated that tobacco tax increases benefit the poor at a greater rate than any other socioeconomic group.

***Tobacco use imposes an unfair burden on the poor.*** Former Secretary of the U.S. Treasury, and co-chair of the Task Force on Fiscal Policy for Health, Larry Summers, stated, “An ethical judgment about taxing harmful products cannot rely on the question of tax regressivity alone. Rather, it requires consideration of all the effects, including the associated health benefits, externalities, and health-care costs.”<sup>2</sup> Smoking itself and its health harms are what hurt the lower-income population. The higher smoking rates among lower-income groups means they suffer disproportionately more from smoking and pay more in health care costs. These smokers will, consequently, benefit the most from effective new measures that reduce smoking, including higher prices through increased tobacco taxes. Further, directing some of the funds from the tobacco tax increase towards cessation and prevention programs can magnify the benefits for this population.

***Tobacco tax increases significantly benefit the poor.*** When researchers evaluated the impact of the 2009 federal tobacco tax increase, they found that the tax not only reduced smoking among young people,<sup>3</sup> but also had striking benefits for low-income individuals. The researchers found that nearly half of the lives saved due to smoking reductions from the 2009 federal tobacco tax increase will be among those below the poverty line, despite the fact that this group will pay the smallest share of the tax increase.<sup>4</sup>

Jason Furman, former Chairman of the Council of Economic Advisers, described benefits from the 2009 federal tobacco tax increase as “strongly progressive,” stating, “health benefits of tobacco taxes far exceed the increase in tax liability, and these health benefits accrue disproportionately to lower-income households.” The 2009 federal tax increase further benefited lower-income families since the revenues from the tax increase were allocated to expanding the state Children’s Health Insurance Program.<sup>5</sup>

A new study in the British Medical Journal modeling the impact of a tax increase that raised the cigarette price by 50 percent in 13 middle income countries found that “the benefits...favour the bottom income group of the population more strongly for life years saved, out of pocket expenditures from averted tobacco attributable treatment costs, catastrophic health expenditures, and extreme poverty averted.”<sup>6</sup> An accompanying editorial put it simply, “People on low incomes have the most to gain.”<sup>7</sup>

***Low-income smokers are much more likely to quit because of tobacco tax increases than higher-income smokers.*** Without interventions, lower-income smokers are less likely to quit than higher-income smokers and they and their families are more likely to continue suffering from their smoking.<sup>8</sup> But studies show that low-income smokers are very sensitive to price, so by raising cigarette prices, substantial cigarette tax increases would prompt these smokers to quit or cutback and stop kids from ever starting.<sup>9</sup> Major U.S. and International health agencies reinforce these findings:

- The Centers for Disease Control and Prevention’s *Best Practices User Guide on Health Equity in Tobacco Prevention and Control* states, “Evidence also shows that increasing the price of tobacco products can reduce tobacco-related disparities among different income groups and may reduce disparities among different racial and ethnic groups.”<sup>10</sup>
- Based on the review of the science, the Community Preventive Services Task Force determined that increasing the price of tobacco products is an “effective approach to reducing tobacco-related disparities by income.”<sup>11</sup>

- The National Cancer Institute (NCI) and World Health Organization (WHO) concluded in their 2017 report, *The Economics of Tobacco and Tobacco Control*, “Lower income populations often respond more to tobacco tax and price increases than higher income populations. As a result, significant tobacco tax and price increases can help reduce the health disparities resulting from tobacco use.”<sup>12</sup>
- The International Agency for Research on Cancer’s 2011 report, *Effectiveness of Tax and Price Policies for Tobacco Control*, stated, “[the price responsiveness of tobacco demand] is consistently higher among the poor than the rich in high-income countries. ... Poor people also incur increasingly higher opportunity cost of tobacco use when tobacco price increases, and thus tend to reduce tobacco consumption more than the rich would do.”<sup>13</sup>
- In *The Economic and Health Benefits of Tobacco Taxation*, the World Health Organization stated, “all the evidence shows that poorer tobacco consumers are far more responsive to increases in price than higher income consumers, and therefore benefit the most in terms of avoiding death and disease associated with tobacco use. This makes it a pro-poor policy.”<sup>14</sup>

**Tobacco tax increases can give current smokers a “tax cut.”** Many current smokers (especially those with low incomes) will completely avoid the new cigarette tax by quitting and others will seek to reduce its impact by cutting back on their smoking or switching from premium brands to cheaper cigarettes. Those who quit because of the tax increase will end up saving all the money they used to spend on cigarettes (not just the money they used to spend on cigarette taxes), and some of those who cut back or switch to cheaper brands will also reduce their overall expenditures on cigarettes. In the United States, every pack-a-day smoker who quits in response to a cigarette tax increase will not only avoid the tax increase but also save an average of more than \$2,000 per year from no longer buying cigarettes.<sup>15</sup> 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. With two people not smoking now, it made a big difference.”<sup>16</sup>

**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 will greatly improve their own health, which could significantly reduce their health costs. Smokers die younger than nonsmokers but because of their higher rates of illness and disability they still have substantially higher annual and lifetime health care costs.<sup>17</sup> Nationwide, smoking-caused health care expenditures total about \$170 billion per year, with billions being paid directly by smokers through direct health care payments and increased health insurance premiums.<sup>18</sup> Smoking among Medicaid enrollees costs states and the federal government at least \$39.6 billion each year.<sup>19</sup>

**Other benefits to low-income families and communities from tobacco tax increases.** Low-income smokers and their communities will benefit more when some of the new revenues from tobacco tax increases are directed to programs to help people quit and to prevent kids from starting. New revenues from tobacco tax increases can also provide funding for or prevent cuts to government programs that provide critically needed services to low-income families or communities. For instance, the 2009 federal tobacco tax increases raised revenue for the state children’s health insurance program and new revenue from Maryland’s 2008 cigarette tax increase helped to expand health insurance coverage in the state.

**Campaign for Tobacco-Free Kids, May 2, 2018 / Ann Boonn**

**More information on tobacco-tax increases is available at**  
[http://www.tobaccofreekids.org/facts\\_issues/fact\\_sheets/policies/tax/us\\_state\\_local/](http://www.tobaccofreekids.org/facts_issues/fact_sheets/policies/tax/us_state_local/).

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<sup>1</sup> U.S. Department of Health and Human Services (HHS), *The Health Consequences of Smoking: 50 Years of Progress. A Report of the Surgeon General*, Atlanta, GA: U.S. Department of Health and Human Services, Centers for Disease Control and Prevention, National Center for Chronic Disease Prevention and Health Promotion, Office on Smoking and Health, 2014. <http://www.surgeongeneral.gov/library/reports/50-years-of-progress/index.html>

<sup>2</sup> Summers, LH, “Taxes for health: evidence clears the air,” *The Lancet*, published online April 4, 2018, [http://dx.doi.org/10.1016/S0140-6736\(18\)30629-9](http://dx.doi.org/10.1016/S0140-6736(18)30629-9).

<sup>3</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>4</sup> Chaloupka, FJ, et al., In progress. Cited in *The Science Behind Tobacco Taxation*, <http://tobaccoconomics.org/research/the-science-behind-tobacco-taxation/>

<sup>5</sup> Furman, J, "Six Lessons from the U.S. Experience with Tobacco Taxes," presentation at the World Bank Conference, *Winning the Tax Wars: Global Solutions for Developing Countries*, May 24, 2016, [https://www.whitehouse.gov/sites/default/files/page/files/20160524\\_cea\\_tobacco\\_tax\\_speech.pdf](https://www.whitehouse.gov/sites/default/files/page/files/20160524_cea_tobacco_tax_speech.pdf).

<sup>6</sup> Mishra, S, "The health, poverty, and financial consequences of a cigarette price increase among 500 million male smokers in 13 middle income countries: compartmental model study," *British Medical Journal* 361:k1162, doi: 10.1136/bmj.k1162, 2018.

<sup>7</sup> McCord, GC & Novotny, TE, "The benefits of taxing cigarettes in middle income countries," *British Medical Journal* 361:k1433, doi: 10.1136/bmj.k1433, April 11, 2018.

<sup>8</sup> U.S. Centers for Disease Control and Prevention (CDC), "Quitting Smoking Among Adults—United States, 2001–2010," *Morbidity and Mortality Weekly Report (MMWR)* 60(44):1513–1519, November 11, 2011, [http://www.cdc.gov/mmwr/preview/mmwrhtml/mm6038a2.htm?s\\_cid=%20mm6038a2.htm\\_w](http://www.cdc.gov/mmwr/preview/mmwrhtml/mm6038a2.htm?s_cid=%20mm6038a2.htm_w). See also, HHS, Tobacco Use Supplement to the Current Population Survey (TUS-CPS), 2010–11 TUS-CPS Data, Table 3: Cigarette Smoking Quit Attempts & Cessation, <http://appliedresearch.cancer.gov/studies/tus-cps/results/data1011/table3.html>, March 13, 2014. HHS, *The Health Consequences of Smoking—50 Years of Progress: A Report of the Surgeon General*, 2014, <http://www.surgeongeneral.gov/library/reports/50-years-of-progress/>. See also, Campaign for Tobacco-Free Kids (CTFK) factsheet, *Smoking and Socioeconomic Status*, <http://www.tobaccofreekids.org/research/factsheets/pdf/0260.pdf>.

<sup>9</sup> CDC, *Best Practices User Guide: Health Equity in Tobacco Prevention and Control*, Atlanta: U.S. Department of Health and Human Services (HHS), CDC, National Center for Chronic Disease Prevention and Health Promotion, Office on Smoking and Health, 2015, <http://www.cdc.gov/tobacco/stateandcommunity/best-practices-health-equity/pdfs/bp-health-equity.pdf>. Community Preventive Services Task Force, *Reducing Tobacco Use and Secondhand Smoke Exposure: Interventions to Increase the Unit Price for Tobacco Products*, Task Force Finding and Rationale Statement, 2014, <http://www.thecommunityguide.org/tobacco/RRincreasingunitprice.html>. Sassi, F, et al., "The Lancet Taskforce on NCDs and economics 4: Equity impacts of price policies to promote healthy behaviours," *The Lancet*, published online April 4, 2018, [http://dx.doi.org/10.1016/S0140-6736\(18\)30531-2](http://dx.doi.org/10.1016/S0140-6736(18)30531-2). 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>. Thomas, S, et al., "Population tobacco control interventions and their effects on social inequalities in smoking: systematic review," *Tobacco Control* 17:230–237, 2008. Hill, S, et al., "Impact of tobacco control interventions on socioeconomic inequalities in smoking: review of the evidence," *Tobacco Control* 23:e89–e97, 2014. 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.

<sup>10</sup> CDC, *Best Practices User Guide: Health Equity in Tobacco Prevention and Control*, Atlanta: HHS, CDC, National Center for Chronic Disease Prevention and Health Promotion, Office on Smoking and Health, 2015, <http://www.cdc.gov/tobacco/stateandcommunity/best-practices-health-equity/pdfs/bp-health-equity.pdf>.

<sup>11</sup> Community Preventive Services Task Force, *Reducing Tobacco Use and Secondhand Smoke Exposure: Interventions to Increase the Unit Price for Tobacco Products*, Task Force Finding and Rationale Statement, 2014, <http://www.thecommunityguide.org/tobacco/RRincreasingunitprice.html>.

<sup>12</sup> U.S. National Cancer Institute (NCI) & World Health Organization (WHO), *The Economics of Tobacco and Tobacco Control*, National Cancer Institute Tobacco Control Monograph 21, NIH Publication No. 16-CA-8029A, Bethesda, MD: HHS, National Institutes of Health, National Cancer Institute; and Geneva, CH: World Health Organization; 2016, [https://cancercontrol.cancer.gov/brp/tcrb/monographs/21/docs/m21\\_complete.pdf](https://cancercontrol.cancer.gov/brp/tcrb/monographs/21/docs/m21_complete.pdf).

<sup>13</sup> International Agency for Research on Cancer, "Tax, price and tobacco use among the poor," *Effectiveness of Tax and Price Policies for Tobacco Control*, IARC Handbook of Cancer Prevention Volume 14, 2011, <http://www.iarc.fr/en/publications/pdfs-online/prev/handbook14/handbook14-7.pdf>.

<sup>14</sup> WHO, *The Economic and Health Benefits of Tobacco Taxation*, 2015, [http://apps.who.int/iris/bitstream/10665/179423/1/WHO\\_NMH\\_PND\\_15.6\\_eng.pdf?ua=1&ua=1](http://apps.who.int/iris/bitstream/10665/179423/1/WHO_NMH_PND_15.6_eng.pdf?ua=1&ua=1). See also, WHO, "Best Practices," in *WHO Technical Manual on Tobacco Tax Administration*, 2011, [http://www.who.int/tobacco/publications/en\\_tfi\\_tob\\_tax\\_chapter5.pdf?ua=1](http://www.who.int/tobacco/publications/en_tfi_tob_tax_chapter5.pdf?ua=1).

<sup>15</sup> Based on average savings across all states. Actual amount would vary based on state of residence. For more information, see CTFK factsheet, *Immediate Smoker Savings from Quitting in Each State*, <http://www.tobaccofreekids.org/research/factsheets/pdf/0337.pdf>.

<sup>16</sup> Goetz, D, "Cigarette sales fall: Ky. tax increase leads some to quit," *The Courier-Journal*, March 11, 2006.

<sup>17</sup> See, e.g., Hodgson, T, "Cigarette Smoking and Lifetime Medical Expenditures," *The Milbank Quarterly* 70(1):81–125, 1992; Nusselder, WJ, et al., "Smoking and the Compression of Morbidity," *Epidemiology and Community Health* 54(8):566–74, 2000. See also, Congressional Budget Office (CBO), *Raising the Excise Tax on Cigarettes: Effects on Health and the Federal Budget*, June 2012.

<sup>18</sup> Xu, X, et al., "Annual Healthcare Spending Attributable to Cigarette Smoking: An Update," *American Journal of Preventive Medicine*, 2014.

<sup>19</sup> Xu, X, et al., "Annual Healthcare Spending Attributable to Cigarette Smoking: An Update," *American Journal of Preventive Medicine*, 2014.