TOBACCO TAX INCREASES BENEFIT LOWER-INCOME SMOKERS AND FAMILIES

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.[1]

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."[2] 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,[3] 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.[4]

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.[5]

A 2018 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."[6] An accompanying editorial put it simply, "People on low incomes have the most to gain."[7]

Using the "the standard income-share accounting definition" of tax burden and mathematical models, a recent study found that "particularly large tax increases could prevent tobacco taxes from being regressive in terms of consumption and net cigarette expenditures. This is in addition to large tax increases leading to broader health benefits (reduction in premature mortality and morbidity) and financial risk protection benefits (reduction of impoverishment related to tobacco-related disease care and work productivity losses)."[8] A published commentary on this study affirmed these findings, stating, "when there are significant differences in consumption across income groups, lower-income groups are very responsive to price increases, and the tax and price increases are sufficiently large, the tax increase is more likely to be progressive. The tax increase is also more likely to be progressive when there are large differences in prevalence, regardless of the difference in price responsiveness."[9] Another commentary further suggested that using revenue from the tax increase to provide cessation resources for the population most affected – lower-income smokers – would "directly [assist] the large majority of people who smoke and wish to quit."[10]

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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.[11] 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.[12] 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."[13]
- 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."[14]
- 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."[15]
- 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."[16]
- 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."[17]

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 $2,500 per year from no longer buying cigarettes.[18] 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."[19]

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.[20] 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.[21] Smoking among Medicaid enrollees costs states and the federal government at least $39.6 billion each year.[22]

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.

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More information on tobacco-tax increases is available at http://www.tobaccofreekids.org/facts_issues/fact_sheets/policies/tax/us_state_local/.

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