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Tobacco Tax Challenge

Update Report
Summer 2003

SmokeLess States National Tobacco Policy Initiative

Tobacco Tax Challenge Advances; States Could Benefit by Raising Cigarette Taxes to National Average

More than 380,000 kids and adults alive today would be saved from smoking-related deaths if higher state cigarette taxes were implemented in the 30 states with below-average cigarette tax rates. Raising state cigarette taxes combined with cessation and prevention programs are one of the most effective ways to reduce smoking rates and to prevent kids from ever starting to smoke.

1 Source: The Centers for Disease Control and Prevention.

2 Source: National Center for Tobacco-Free Kids / July 2003.

Why Increase State Cigarette Taxes?

Research shows that as the price of cigarettes rises, the number of smokers declines. Since January 1, 2002, 30 states, Puerto Rico and Washington DC have increased their cigarette taxes thereby increasing state revenues, reducing smoking levels, and shrinking smoking-caused costs. But 20 other states have failed to take this action, and a total of 30 states have cigarette tax rates below the nationwide average of 72 cents per pack — with nine states having rates of 20 cents or less per pack. Given ongoing state budget difficulties, the significant toll of tobacco use in each state and the enormous public and private benefits from raising state cigarette taxes, those states with below average rates have much to gain from raising them to the national average. Consider these facts about the impact of smoking:

- More than 6 million kids alive today are projected to die from smoking-related diseases;[1]
- More than $23 billion in federal and state Medicaid payments go toward treating people with smoking-related illnesses;[1]
- Each pack of cigarettes sold in the US equates to $7.18 in health costs and productivity losses;[1]
- More than 120,000 current adult smokers would quit and be saved from a smoking-caused death if the 30 states with below-average state cigarette taxes raised their rates to the national average;[2] and
- More than 260,000 kids alive today would be saved from smoking and an untimely death from it if the 30 states with below-average cigarette taxes raised their rates to the national average.[2]

In February 2002, the SmokeLess States National Tobacco Policy Initiative issued the **Tobacco Tax Challenge** to encourage governors nationwide to reduce youth smoking and the incredible and unnecessary harm tobacco inflicts on people. Several of the nation's leading health care organizations, including the American Academy of Family Physicians, American Cancer Society, American Heart Association, American Lung Association, American Medical Association and the Campaign for Tobacco-Free Kids joined SmokeLess States in issuing this Challenge.

*In this Update Report, we provide a look at the **ongoing** Challenge, the benefits of higher state cigarette taxes and a look ahead on the legislative front.*

States With Above Average Cigarette Tax Rates That Have Increased Cigarette Taxes Since January 1, 2002 (Including Puerto Rico and Washington DC)

State	Tax Rate Per Pack	Rank Among States (1=highest)	Effective Date of Increase	Increase Since 12/31/01
New Jersey	$2.05	1st	7/1/03	$1.25
Connecticut[1]	$1.51	2nd	3/15/03	$1.01
Massachusetts	$1.51	2nd	7/24/02	$0.75
New York	$1.50	4th	4/3/02	$0.39
Rhode Island[2]	$1.50	4th	7/1/03	$0.50
Washington	$1.425	6th	1/1/02	$0.60
Hawaii[3]	$1.30	7th	7/1/03	$0.30
Oregon	$1.28	8th	11/1/02	$0.60
Michigan	$1.25	9th	8/1/02	$0.50
Puerto Rico	$1.23	NA	5/16/02	$0.40
Vermont[4]	$1.19	10th	7/1/03	$0.75
Arizona	$1.18	11th	11/26/02	$0.60
Washington DC	$1.00	12th	1/1/03	$0.35
Maryland	$1.00	12th	6/1/02	$0.35
Pennsylvania	$1.00	12th	7/15/02	$0.69
Illinois	$0.98	17th	7/1/02	$0.40
New Mexico	$0.91	18th	7/1/03	$0.70
Kansas[4]	$0.79	20th	1/1/03	$0.55

National Average: 72 cents per pack

New York City, which accounts for roughly half of all cigarette sales in New York State, also increased its own local cigarette tax by 8 cents to $1.50 per pack, effective July 1, 2002, with New York State receiving roughly half of the City's cigarette tax revenues. Other cities, towns, and counties have also increased their cigarette taxes, including several in Virginia.

1 Connecticut has separately increased its cigarette tax twice during this time period, first raising it from 50 cents to $1.11 in 2002 and then raising it to $1.51.

2 Rhode Island passed a seven-stage increase, with subsequent 10-cent increases occurring each year on July 1 of 2004-2008.

3 Hawaii passed a three-stage tax increase, which has another 10-cent increase occurring on July 1, 2004 (and a reversion back to $1 per pack on July 1, 2005).

4 In 2002, Vermont and Kansas passed two-stage tax increases with separate increases in 2002 and 2003.

Extensive materials on state tobacco tax increases can be found on the Campaign for Tobacco-Free Kids' Web site at *http://tobaccofreekids.org/reports/prices.*

Source: National Center for Tobacco-Free Kids, July 2003.

The Benefits

Reduced Smoking Rates

Increasing state cigarette taxes is one of the most effective ways to reduce youth smoking. In fact, studies show that for every 10% increase in the price of a package of cigarettes, youth smoking rates decline by 7%.

Even tobacco companies have acknowledged that higher state cigarette taxes reduce smoking among kids and lower-income communities. Combining higher cigarette prices with effective cessation programs constitutes one of the most effective approaches for reducing smoking rates, and the benefits are immediate. Calls into tobacco quit lines and visits to cessation programs go up following state cigarette tax increases, as was the case when Illinois' increase went into effect in July 2002.

By discouraging kids from smoking, states also reduce future costs associated with treating smoking-related diseases, but kids aren't the only ones to benefit. Adult smokers are deterred from smoking, too, as the price of cigarettes rise. That's proven to be the case in all states that have increased their cigarette tax rates, including larger states such as California and Washington where tax increases were followed by declines in smoking rates among youth and adults.

Increased Revenues

State cigarette taxes also generate revenue, an important consideration for many statehouses grappling with record deficits. These revenues have proven to be more stable and predictable than corporate or income taxes. States such as Connecticut, Hawaii and Michigan enhanced their revenues as a result of recent increases in their cigarette taxes. In fact, state cigarette tax revenues have gone up after every single one of the more than 30 state cigarette tax increases that were implemented in 2002 and early 2003.

Reduced Health Care Expenditures

Another benefit of state tobacco taxes is their impact on reducing future health care costs related to treating sick and dying smokers. Smoking-related diseases cost states and the federal government — in terms of public and private expenditures — a combined total of more than $75 billion a year. On a per pack basis, the health and productivity related costs attributed to smoking amount to as much as $7.18 per pack on average nationwide. Furthermore, by reducing smoking-caused costs, cigarette tax increases help to reduce states' share of annual Medicaid expenditures — payments that total more than $10 billion every year.

Public Support for Higher State Tobacco Taxes

Finally, according to surveys conducted in states nationwide, a majority of voters support higher state cigarette taxes. Nowhere is this more evident than in states such as Arizona, Oregon and Washington where higher cigarette taxes were passed by public referendums. Tobacco taxes receive strong bipartisan support among voters and lawmakers throughout the country.

Opponents of cigarette taxes claim that they lead to cigarette smuggling across state borders. Given consumer buying behavior (two-thirds of all cigarettes sold in the US are sold as single packs), cross-border selling is not a significant issue. Additionally, while higher cigarette taxes can prompt a spike in Internet sales immediately after a tax hike, experience shows that consumer-buying habits return to their pre-tax patterns after a few months. Additionally, states such as New York have passed or are drafting laws that will outlaw Internet or mail order tobacco sales or tax them at the state rate.

Another myth is that state cigarette taxes are regressive and only hurt low-income smokers. However, evidence shows that people with low incomes not only have the highest smoking levels, but also have the most to gain from higher cigarette prices. In fact, people with low incomes are four times as likely to quit because of higher cigarette prices; money not spent on cigarettes can be used for other purchases.

A Look Ahead

Budget Woes

Reports from the National Governors Association and the National Conference of State Legislatures show that many states will continue to face severe economic hardships in fiscal year 2004. While many lawmakers have said they will not raise taxes, they may be left with few alternatives. Consider the numbers:

- Collectively, the nation's governors expect a $53.5 billion shortfall in fiscal year 2004;[1]
- 29 states are considering tax and fee increases in fiscal year 2004.[2]

1 The National Conference of State Legislatures, May 23, 2003, "State Lawmakers Applaud Economic Recovery Compromise."
2 The National Governors Association, June 26, 2003, "Tough Economic Times Remain for States."

Healthier Communities, Healthier Futures

Clearly, the slowing economy, security costs, skyrocketing health care expenditures and other factors are forcing states to look at some new and some old ways to generate revenue. Using higher cigarette taxes in combination with other tobacco prevention and cessation initiatives can reduce smoking rates, reduce tobacco-related illnesses and save health care dollars. It is a formula that works. States that invest cigarette tax revenues in tobacco prevention and cessation programs are making an important investment in the future health of their residents. Allocating just a few pennies of cigarette tax revenues to state-funded efforts to prevent and reduce smoking greatly enhances the beneficial impact of the tax increase.

The Centers for Disease Control and Prevention (CDC) has recommended specific funding levels for tobacco prevention and cessation

Benefits of Increasing State Cigarette Taxes to National Average (for 30 States with Below Average Rates)

State	Current Tax	State Tax Rank (1=high)	Date of Last Increase	Increase to Reach National Average	New Tax Revenue from Increase (millions)	Adults Who Will Quit	Kids Stopped from Smoking	Kids Saved from Smoking Death	Adults Saved from Smoking Death	Long-Term Health Savings (millions)
Virginia	2.5¢	51st	9/1/66	69.5¢	$330.4	51,000	67,000	21,400	11,200	$1.2 bil.
Kentucky	3¢	50th	7/1/70	69¢	$280.7	41,000	59,000	18,800	9,000	$1.0 bil.
North Carolina	5¢	49th	8/1/91	67¢	$355.3	65,000	101,000	32,300	14,300	$1.7 bil.
South Carolina	7¢	48th	7/1/77	65¢	$225.0	31,000	41,000	13,100	6,800	$747.8
Alabama	16.5¢	47th	7/1/84	55.5¢	$186.0	24,000	39,000	12,400	5,200	$666.0
Missouri	17¢	46th	10/1/93	55¢	$254.4	35,000	52,000	16,600	7,700	$912.8
Mississippi	18¢	45th	6/1/85	54¢	$122.2	16,000	21,000	6,700	3,500	$384.0
Colorado	20¢	43rd	7/1/86	52¢	$130.3	21,000	32,000	10,200	4,600	$557.3
Tennessee	20¢	43rd	7/15/02	52¢	$271.8	31,000	43,000	13,700	6,800	$771.8
Oklahoma	23¢	42nd	6/1/87	49¢	$147.6	21,000	26,000	8,300	4,600	$485.3
Florida	33.9¢	41st	7/1/90	38.1¢	$430.8	58,000	75,000	24,000	12,700	$1.3 bil.
Nevada	35¢	40th	7/1/89	37¢	$53.4	8,000	13,000	4,100	1,700	$222.0
Iowa	36¢	38th	6/1/91	36¢	$77.2	10,000	19,000	6,000	2,200	$310.5
Louisiana	36¢	38th	7/1/02	36¢	$137.7	16,000	25,000	8,000	3,500	$432.0
Georgia	37¢	37th	7/1/03	35¢	$207.4	26,000	40,000	12,800	5,700	$694.5
Texas	41¢	36th	7/1/90	31¢	$343.4	55,000	93,000	29,700	12,100	$1.5 bil.
North Dakota	44¢	35th	7/1/93	28¢	$10.8	1,500	2,600	800	300	$43.6
Minnesota	48¢	34th	7/1/92	24¢	$74.4	10,000	16,000	5,100	2,200	$274.5
New Hampshire	52¢	33rd	7/1/99	20¢	$28.2	2,300	4,200	1,300	500	$69.4
South Dakota	53¢	32nd	3/24/03	19¢	$9.0	1,200	2,300	700	200	$37.5
Delaware	55¢	29th	8/1/03	17¢	$16.2	1,300	2,100	600	200	$35.9
Ohio	55¢	29th	7/1/02	17¢	$156.1	20,000	32,000	10,200	4,400	$549.0
West Virginia	55¢	29th	5/1/03	17¢	$25.7	3,000	4,000	1,200	600	$72.8
Indiana	55.5¢	28th	7/1/02	16.5¢	$100.3	10,000	16,000	5,100	2,200	$274.5
Idaho	57¢	27th	6/1/03	15¢	$10.0	1,400	3,000	900	300	$47.6
Arkansas	59¢	26th	6/1/03	13¢	$26.2	3,000	5,000	1,600	600	$84.8
Wyoming	60¢	25th	7/1/03	12¢	$4.3	500	900	200	100	$14.9
Nebraska	64¢	24th	10/1/02	8¢	$9.1	900	2,000	600	100	$31.4
Utah	69.5¢	23rd	5/6/02	2.5¢	$1.4	200	500	100	*	$7.7
Montana	70¢	22nd	5/1/03	2¢	$1.0	100	100	*	*	$2.0
Total	NA	NA	NA	NA	**$4.0 bil.**	**560,000+**	**830,000+**	**260,000+**	**120,000+**	**$14.5 bil.**

* Amount is less than 100.

Projections are based on state cigarette tax increases to 72 cents per pack. Projections are conservative because they assume substantial declines in pack sales caused by smoker tax evasion through cross-border and Internet purchases and by cigarette smuggling and also assume disproportionately large reductions in state pack sales after the tax increase in VA, NC, and KY because those states would no longer serve as suppliers of low-tax cigarettes for informal and organized interstate smuggling or Internet sales. Additional materials on the benefits of tobacco-tax increases can be found on the Campaign for Tobacco-Free Kids' Web site at *http://tobaccofreekids.org/reports/prices.*

Source: National Center for Tobacco-Free Kids / July 2003.

Raising Other Tobacco Taxes

Since the beginning of 2002, 12 states have raised additional revenues and secured additional public health benefits and cost savings by increasing their tax rates on smokeless tobacco and other tobacco products — with Georgia passing a tax on all other tobacco products for the first time. But Kentucky, Virginia, Pennsylvania, and Washington DC still have no tax on other tobacco products, and 34 other states and Washington DC have failed to raise their non-cigarette tobacco tax rates in years. The average for the vast majority of states that tax other tobacco products as a percentage of wholesale price (also called manufacturers' price) is 29.9%, with actual rates ranging from 2% (North Carolina) to 129.42% (Washington).

State	Old Rate	New Rate
Arizona	6.5 cents per ounce	13.25 cents per ounce
Arkansas	23% of wholesale price	25% of wholesale price
Georgia	Variable cigar tax only	10% of wholesale price
Indiana	15% of wholesale price	18% of wholesale price
Massachusetts[1]	75% of wholesale price	90% of wholesale price
Michigan	16% of wholesale price	20% of wholesale price
Montana[2]	12.5% of wholesale price	25% of wholesale price
Nebraska	15% of wholesale price	20% of wholesale price
New York	20% of wholesale price	37% of wholesale price
Rhode Island	20% of wholesale price	30% of wholesale price
Tennessee	6% of wholesale price	6.6% of wholesale price
Washington	74.9% of wholesale price	129.42% of wholesale price

1 Massachusetts' tax on cigars increased from 15% to 30%.

2 Montana's tax on snuff increased from 12.5% to 35 cents per ounce.

For more information on state taxation of other tobacco products, including each state's rates, go to the Web site *http://tobaccofreekids.org/research/factsheets/index.php?CategoryID=18.*

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programs for each state using funds from the Master Settlement Agreement, the 1998 landmark agreement signed between the attorneys general in 46 states and the nation's leading tobacco companies. Working in concert, tobacco prevention initiatives — including higher state tobacco taxes, funding state programs to CDC-recommended levels (usually about 20-25% of the settlement funds), and even efforts to protect people from the dangers of secondhand smoke — contribute to healthier communities, and healthier state budgets.

Resources

To learn more about the benefits of higher state taxes on tobacco products, tobacco cessation programs, or how states are successfully grappling with budget deficits, visit the following Web sites:

- SmokeLess States: *www.smokelessstates.org*
- American Academy of Family Physicians: *www.aafp.org*
- American Cancer Society: *www.cancer.org*
- American Heart Association: *www.americanheart.org*
- American Lung Association: *www.lungusa.org*
- American Medical Association: *www.ama-assn.org*
- Campaign for Tobacco-Free Kids: *www.tobaccofreekids.org*
- National Governors Association: *www.nga.org*
- National Conference of State Legislatures: *www.ncsl.org*
- The Centers for Tobacco Control and Prevention: *www.cdc.gov*

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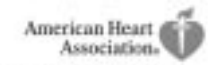

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