



State Tobacco Taxes: Overview and Resources

December 2, 2014

National Tobacco Control Conference

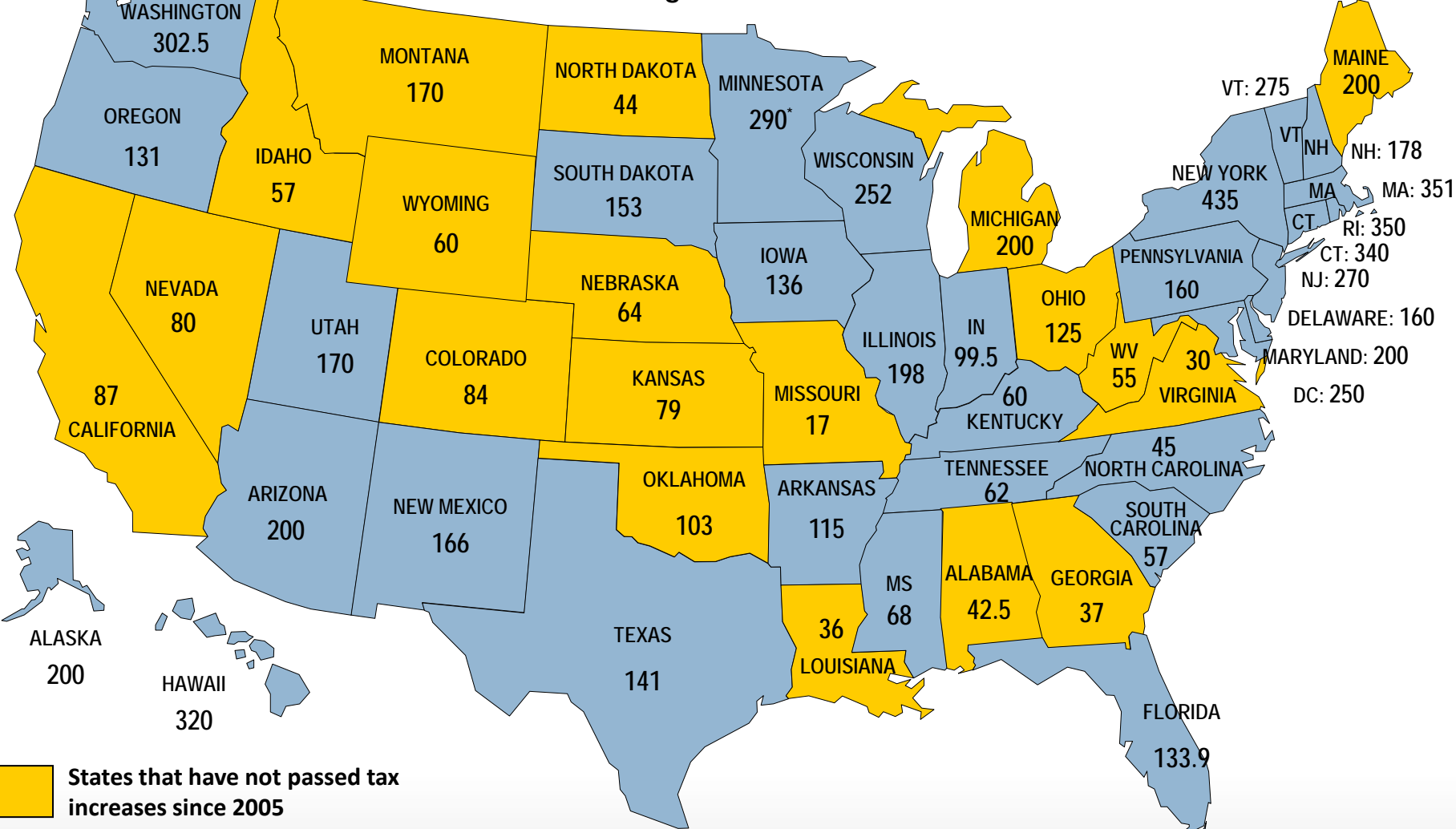
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Cigarette Excise Tax Rates

(cents per pack)

State Average is \$1.54 Per Pack



- States that have not passed tax increases since 2005
- States that have passed or implemented a cigarette tax increase since 2005

* MN's inflation adjustment to \$2.90 per pack effective 1/1/2015.



State Cigarette Tax Rates

- **Average cigarette tax rate: \$1.54 per pack**

- **1 state with a tax rate at \$4.00+ per pack:**

New York

- **Another 5 states with a tax rate at \$3.00+ per pack:**

Connecticut

Hawaii

Massachusetts

Rhode Island

Washington

- **Another 9 states + DC with tax rates at \$2.00+ per pack:**

Alaska

Maine

Minnesota

Wisconsin

Arizona

Maryland

New Jersey

Washington, DC

Michigan

Vermont

- **Another 15 states have tax rates of at least \$1.00 per pack:**

Arkansas

Illinois

Ohio

South Dakota

Delaware

Montana

Oklahoma

Texas

Florida

New Hampshire

Oregon

Utah

Iowa

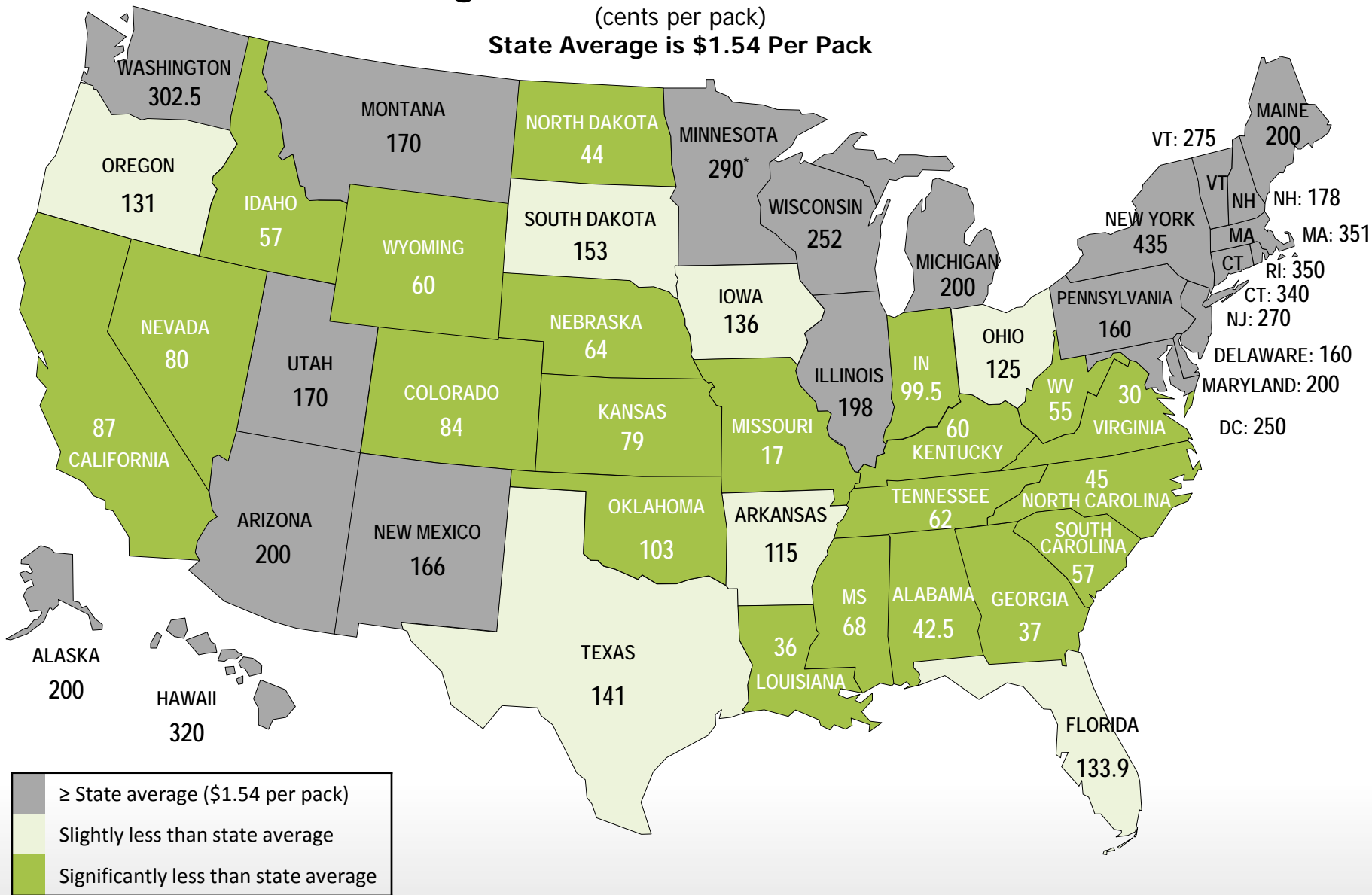
New Mexico

Pennsylvania

Cigarette Excise Tax Rates

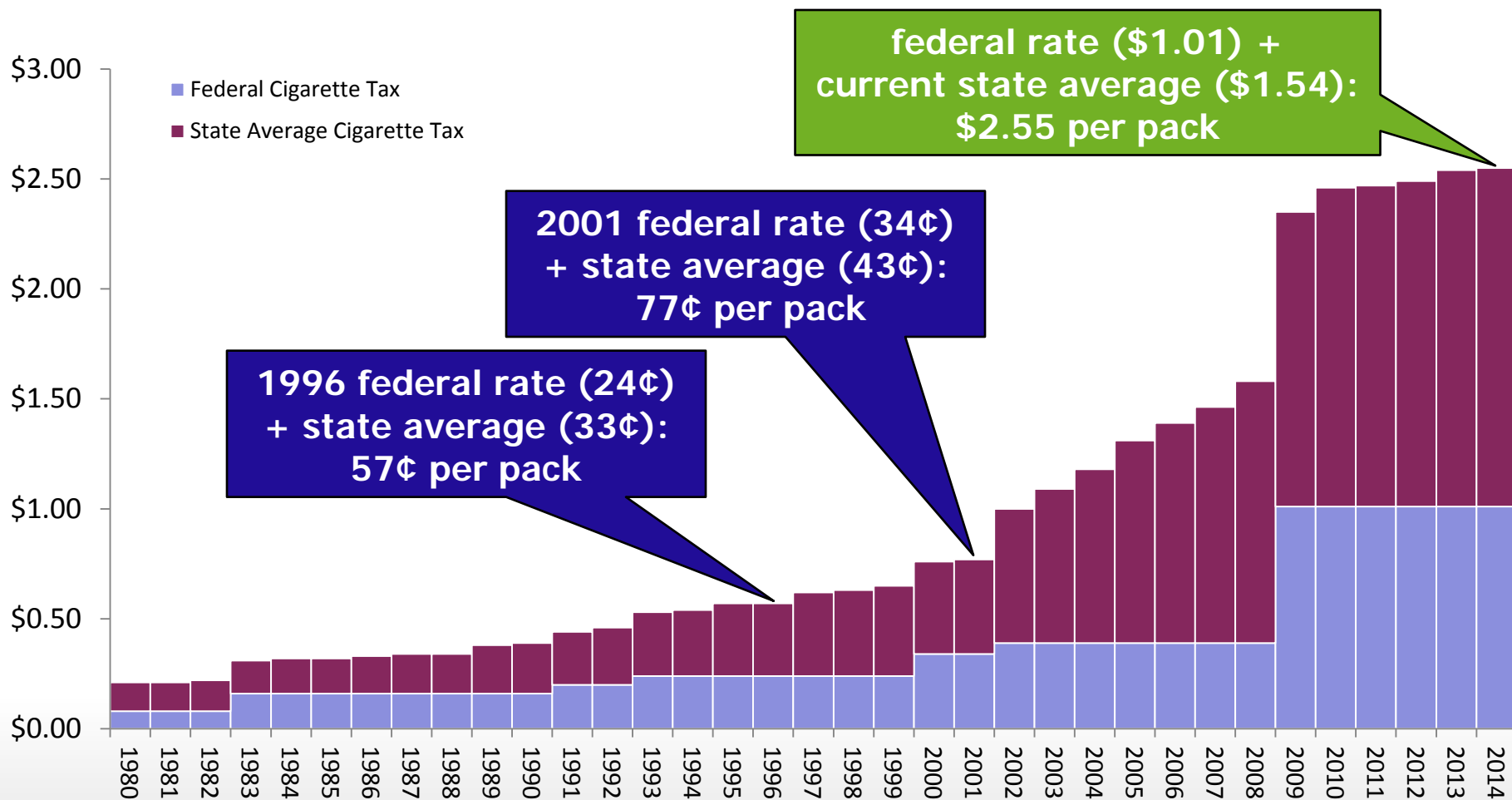
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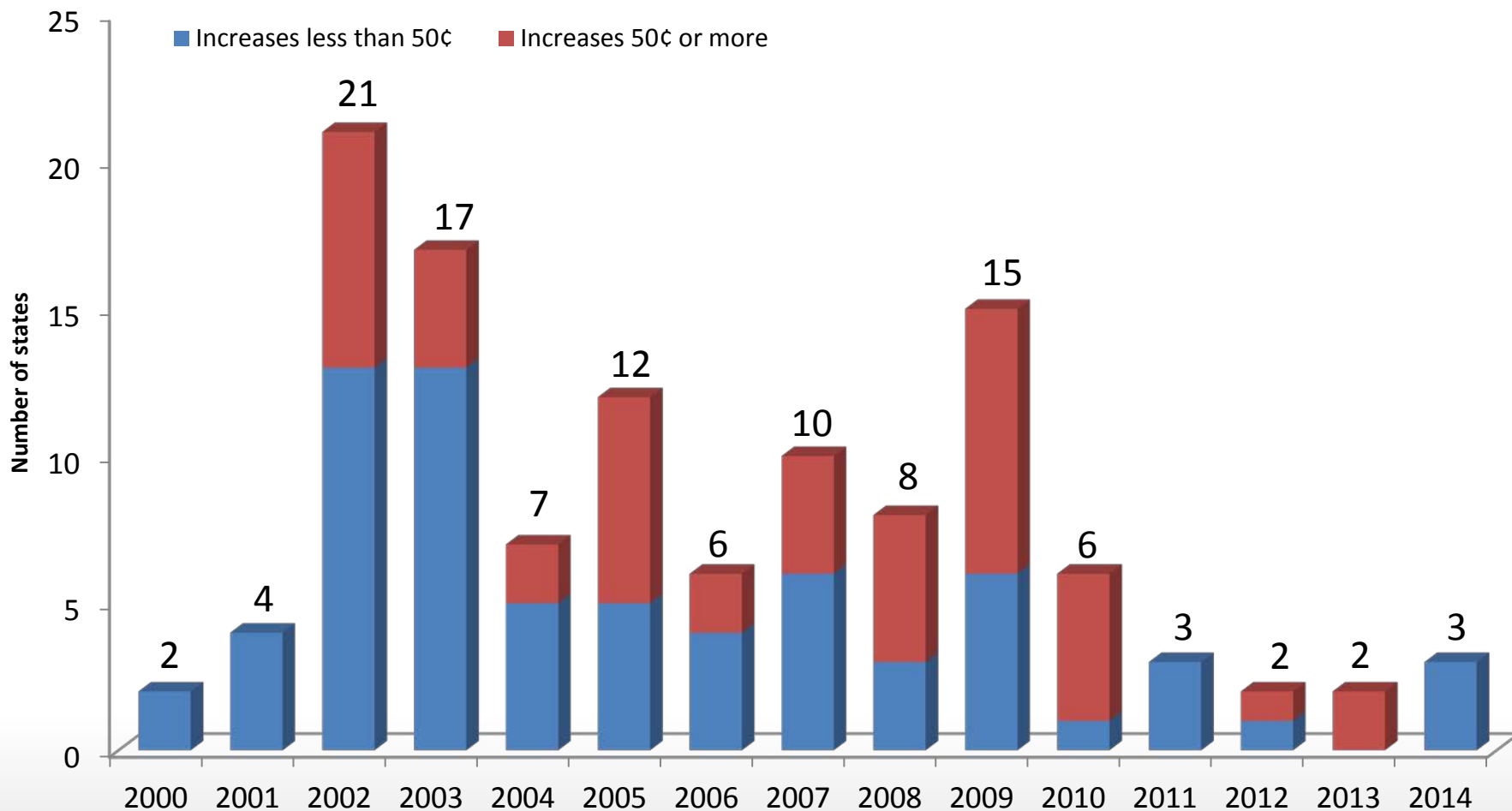
* MN's inflation adjustment to \$2.90 per pack effective 1/1/2015.

Federal Cigarette Excise Tax + Average State Cigarette Tax





Recent State Cigarette Tax Increases



Note: Totals are for calendar year and include increases that passed in one piece of legislation but went into effect over several years.



Common Industry Arguments

1. The state will not receive as much net new revenue from its cigarette tax increase as it expects
2. Cigarette tax increases do not provide a reliable source of future state revenue
3. Cigarette tax increases will promote cigarette smuggling, black markets, and smoker tax avoidance.
4. Tobacco tax increases will hurt small businesses.
5. Tobacco taxes are regressive.
6. Smaller or multi-stage tax increases will generate enough revenue; larger increases are unnecessary.



RESPONSES TO MISLEADING AND INACCURATE CIGARETTE COMPANY ARGUMENTS AGAINST STATE CIGARETTE TAX INCREASES

Whenever an increase to a state's cigarette tax rate is being seriously considered, a number of misleading or false arguments against the increase typically appear. The following list presents actual arguments made by cigarette companies, or their lobbyists and allies, in various states. Some were made publicly to policy-makers or the media, and others were made only behind closed doors. As outlined below, however, none of these arguments holds water when confronted with the actual, relevant facts.

- I. *Cigarette Company Myth: Cigarette tax increases do not reduce youth smoking (or any smoking).*
 - A. **It is amazing that the cigarette companies' lobbyists and allies continue to make this argument with a straight face despite the absence of any facts to support it.** Moreover, the cigarette companies have actually stated, both publicly and in internal company documents disclosed in tobacco lawsuits, that raising cigarette prices through state tobacco tax increases or other means significantly reduces smoking, especially among kids and lower-income communities. That fact is also well established by scientific research and by the actual experiences of states that have raised their tax rates. [See the Campaign for Tobacco-Free Kids (TFK) Factsheet, *Raising Cigarette Taxes Reduces Smoking, Especially Among Kids (and the Cigarette Companies Know It)*, <http://tobaccofreekids.org/research/factsheets/pdf/0146.pdf>.]
- II. *Cigarette Company Myth: States will not receive as much net new revenue from their cigarette taxes as they expect.*
 - A. **Every state that has ever increased its cigarette tax rate has received more revenue than it would have obtained absent the rate increase.** In fact, every state that has increased its cigarette tax by a significant amount has enjoyed a substantial increase in revenue, despite ongoing and tax-specific smoking declines and any ongoing or increased tax evasion.¹ Put simply, the increased new revenue the state receives on each pack sold in the state after a cigarette tax rate increase always significantly outweighs the revenue losses from the decline in total pack sales caused by the rate increase. [See TFK Factsheet, *Raising State Tobacco Taxes Always Increases State Revenues & Always Reduces Tobacco Use*, <http://tobaccofreekids.org/research/factsheets/pdf/0098.pdf>.]
 - B. **The only time a state ever receives less new revenue than they expected from a cigarette tax increase is when the state made overly optimistic revenue projections.** The cigarette companies like to make a big deal out of their allegation that a large majority of states have received significantly less new revenue from past cigarette tax increases than they expected. But that is clearly a function of the state revenue folks making overly optimistic projections that fail to take account of either the

<http://www.tobaccofreekids.org/research/factsheets/pdf/0227.pdf>



TFK Tobacco Tax Resources

- Factsheets, Reports
 - general and specific to state/locality
 - http://www.tobaccofreekids.org/facts_issues/fact_sheets/policies/tax/us_state_local/
- Polling
- Model Legislation and Legislative Drafting Assistance
- Media Resources
 - ads, sample LTEs, Ed Board memos
- Grassroots Resources
 - microsites, educational flyers, action alerts, social networking tools

TFK & ACS CAN Tax Projections

- Ready by January
- Limitations
- How to request projections



NEW REVENUES, PUBLIC HEALTH BENEFITS & COST SAVINGS FROM A \$1.50 CIGARETTE TAX INCREASE IN KANSAS

Current state cigarette tax: 79 cents per pack (36th among all states and DC)
Smoking-caused health care and productivity costs in Kansas: \$11.66 per pack

Annual health care expenditures in Kansas directly caused by tobacco use: \$1.12 billion
Smoking-caused state Medicaid program spending each year: \$196 million

Projected New Annual Revenue from Increasing the Cigarette Tax Rate by \$1.50 Per Pack: \$87.49 million

Additional Revenue from Raising Other Tobacco Product Tax Rates to Parallel New Levels: \$26.00 million

New Annual Revenue is the amount of additional new revenue over the first full year after the effective date. The state will collect less new revenue if it fails to apply the rate increase to all cigarettes and other tobacco products held in wholesaler and retailer inventories on the effective date.

Projected Public Health Benefits for Kansas from the Cigarette Tax Rate Increase

Percent decrease in youth smoking:	20.2%
Youth under age 18 kept from becoming adult smokers:	26,800
Current adult smokers who would quit:	24,800
Premature smoking-caused deaths prevented:	15,300
5-Year number of smoking-affected births avoided:	4,800
5-Year health care cost savings from fewer smoking-caused lung cancer cases:	\$3.91 million
5-Year health care cost savings from fewer smoking-affected pregnancies & births:	\$10.88 million
5-Year health care cost savings from fewer smoking-caused heart attacks & strokes:	\$8.11 million
5-Year Medicaid program savings for the state:	\$3.17 billion
Long-term health care cost savings from adult & youth smoking declines:	\$1.00 billion

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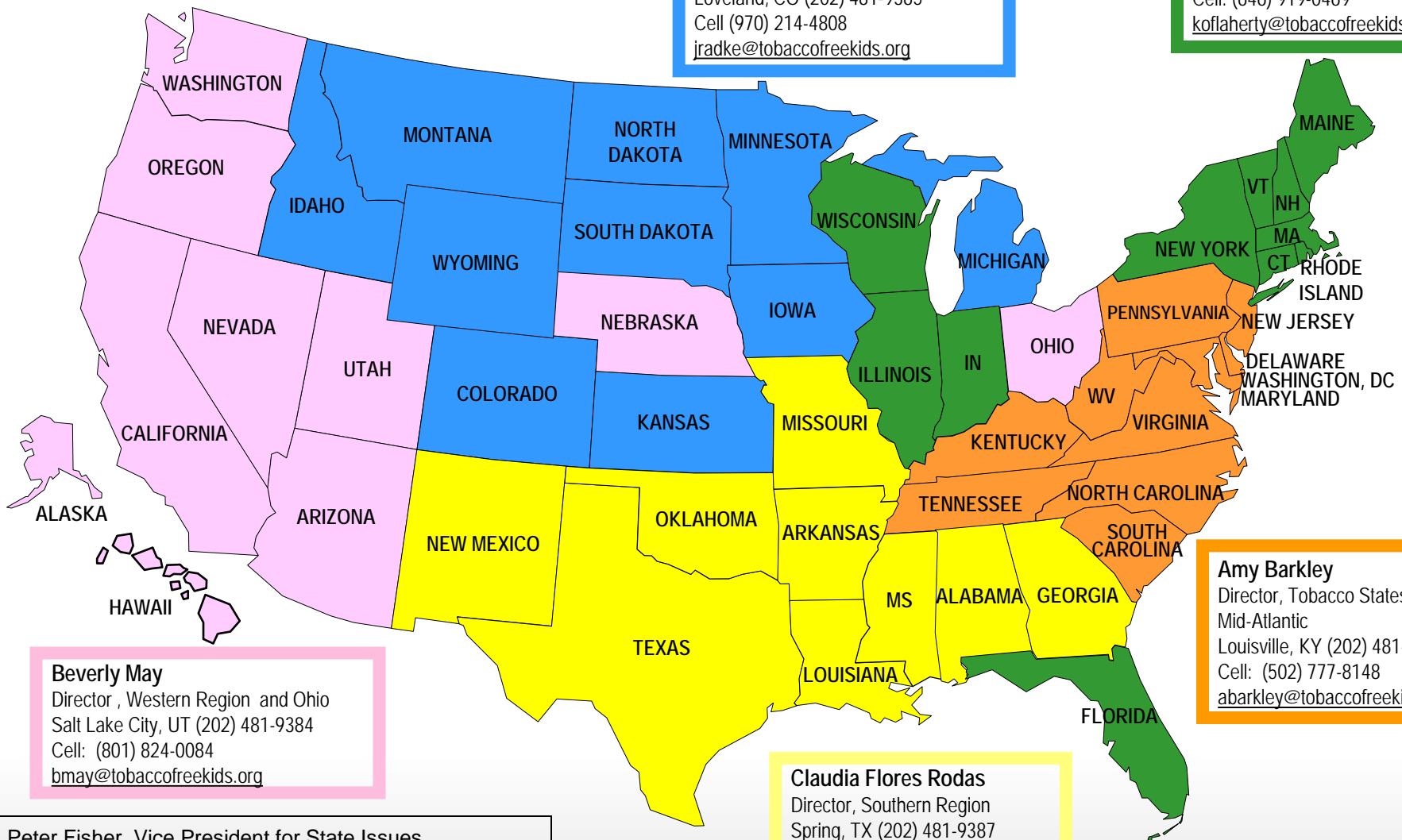
- Small tax increase amounts do not produce significant public health benefits or cost savings because the cigarette companies can easily offset the beneficial impact of such small increases with temporary price cuts, coupons, and other promotional discounting. Splitting a tax rate increase into separate, smaller increases in successive years will similarly diminish or eliminate the public health benefits and related cost savings (as well as reduce the amount of new revenues).
- Raising state tax rates on other tobacco products (OTPs) to parallel the increased cigarette tax rate will bring the state additional revenue, public health benefits, and cost savings (and promote tax equity). With unequal rates, the state loses revenue each time a cigarette smoker switches to cigars, roll-your-own tobacco, or smokeless tobacco products. To parallel the new \$2.29 per pack cigarette tax, the state's new OTP tax rate should be 50% of the wholesale price with minimum tax rates for each major OTP category linked to the state cigarette tax rate on a per-package or per-dose basis.

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