

Policy Brief on: *Cigarette Taxes and Pricing*

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Introduction:

Over the past few years, all but a few states and several communities have adopted substantial increases in cigarette and other tobacco product excise taxes.

These tax increases have raised many questions about their role in reducing the health and other consequences of tobacco use; the impact of increased cigarette smuggling and other tax evasion activities on cigarette tax revenues; their economic impact; and their impact on smoking behaviors (particularly in high-risk populations such as youth, young adults and pregnant women).

During the last ten years, SAPRP has funded 14 studies examining a variety of issues related to cigarette and other tobacco product taxation and pricing.

Policy Implications:

Since the mid 1990s, average state cigarette excise taxes have more than tripled and several major cities (including New York and Chicago) have adopted significant local tax increases. (For up-to-date information on state and local taxes, see www.tobaccofreekids.org/reports/prices/). These tax hikes, combined with other factors, including the efforts of tobacco companies to recoup the costs of the Master Settlement Agreement, have had a significant impact on price. In the last ten years, the average price of a pack of cigarettes in the United States has about doubled, with significantly larger increases in some jurisdictions and smaller increases in others.

Several conclusions emerge from the extensive economic research and other studies regarding pricing and taxation of tobacco products. The research clearly demonstrates that higher taxes on cigarettes and other tobacco products and the resulting higher cigarette prices lead to significant reductions in smoking and other uses of tobacco. These reductions in use are due to rising rates of cessation among existing users, reductions in relapse among former users, reduced initiation among youth, and reductions in consumption among continuing users. Youth, lower-income persons, and pregnant women, are more sensitive to tax and price increases than are other demographic groups. Given the significant health consequences caused by tobacco use, reductions due to the tax increases lead to significant improvements in public health. At the same time, these tax increases generate sizable increases in tobacco tax revenues while not causing significant job loss.

Key Results

- Higher prices and increases in taxes on cigarette and other tobacco products significantly reduce cigarette smoking and other tobacco use. (Jha and Chaloupka, 1999); (Jha and Chaloupka, 2000); (The Task Force on Community Preventive Service, 2001); (Gallet and List, 2003)
- Higher cigarette taxes and prices are effective in promoting cessation among adult smokers. (U.S. Department of Health and Human Services, 1990, 2004); (CDC, 2000); (Tauras and Chaloupka, 2001); (Tauras, 2004); (Ranson et al., 2002); (Tauras et al., 2003, 2005)
- Cigarette tax and price increases are effective in preventing youth smoking initiation, as well as the escalation of smoking among younger persons. (U.S. Department of Health and Human Services, 1994); (CDC, 2006); (Liang and Chaloupka, 2002); (Tauras et al., 2001); (Tauras, 2005); (Lewit et al., 1981); (Lewit and Coate, 1982);

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(DeCicca et al., 2002); (Chaloupka, in press); (Tauras et al., 2007); (Powell et al., 2005); Powell and Chaloupka, 2005)

- Cigarette tax and price increases are particularly effective in reducing the number of pregnant women who smoke. Because maternal smoking is a preventable cause of low birth weight, sudden infant death syndrome, ectopic pregnancy, spontaneous abortion, and neonatal mortality, the resulting reductions in smoking reduce these health complications and should result in health care cost savings. (Evans and Ringel, 1999), (Ringel and Evans, 2001); (Colman et al., 2003)
- Cigarette smoking among individuals with low incomes is more responsive to price than is cigarette smoking among people with high incomes. Given the relatively high prevalence of smoking in low-income populations, this greater price sensitivity suggests that increases in cigarette taxes and prices can be particularly effective in reducing disparities in the burden of disease caused by tobacco use. (CDC, 2005); (Murray et al., 2006); (Farrelly et al., 2001); (Ross and Chaloupka, 2006)
- In addition to having an impact on public health impact, increases in cigarette excise taxes have a positive impact on revenues, despite reductions in the sale of cigarettes and any losses due to increased tax evasion and avoidance. (Farrelly et al., 2003); (Lindblom and McMahon, 2006); (Stehr, 2005); (Merriman et al., 2000); (Hyland et al., 2005); (Chaloupka et al., in press)
- The response of tobacco companies to higher taxes can in part determine how the taxes impact tobacco use, the health consequences of tobacco, and the amount of revenue generated through the sale of tobacco products. If tobacco companies increase their use of price promotions, for example, they can partially offset the effect of tax increases on price. Research clearly demonstrates that tobacco use declines following tax increases, despite these potentially offsetting factors. (Chaloupka et al., 2002); (Loomis et al., 2006); (Slater et al., 2001); (Keeler et al., 2004); (Pierce et al., 2005)
- Increases in cigarette taxes and the resulting decline in tobacco use do not cause significant job loss. (Liang et al., 2006); (Warner and Fulton, 1994); (Warner et al., 1996)

Chaloupka, F.J.; Tobacco Taxes and Pricing Knowledge Asset, Web site created by the Robert Wood Johnson Foundation's Substance Abuse Policy Research Program; May 2007.

http://saprp.org/knowledgeassets/knowledge_detail.cfm?KAID=4

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State Cigarette Excise Taxes

