Tobacco Taxes: Implications for Public Health

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Background
Tobacco use is Wisconsin’s single most important preventable cause of premature death and disease, killing over 7,300 state citizens every year, and costing the state almost $3 billion annually in healthcare and lost productivity. 1 Wisconsin’s high tobacco-related chronic disease rates and quickly escalating health care costs make it critical that any program to improve the public health and economy of the state include an aggressive tobacco prevention and control program.

Well-funded, comprehensive tobacco control programs have shown rapid and substantial reductions in tobacco use. 2 Based upon these successes, the U.S. Centers for Disease Control and Prevention (CDC) recommend that all states implement long-term, comprehensive programs. Wisconsin’s tobacco control program is based largely upon this CDC model and has begun to build the components of a statewide program, including
- local tobacco control coalitions,
- a statewide quit line,
- a counter-marketing campaign, and
- programs targeted to pregnant smokers, youth, young adults and communities of color.

Early indicators suggest that Wisconsin’s program is showing promise. In 2002, Wisconsin cigarette sales decreased by 5%, compared to a decrease of only 1% for the U.S. as a whole. 3 Further, smoking prevalence declined by 30% among eighth graders and 22% among tenth graders between 2000 and 2002. 4

The CDC-recommended funding levels for tobacco control programs in medium-sized states are between six and 16 dollars per capita, or approximately $30 to $80 million annually in Wisconsin. Funding levels for Wisconsin’s program have never reached this level – ranging from approximately $2 million annually prior to the Multi-State Master Settlement Agreement, to an average of approximately $17 million per year since the settlement.

States such as Massachusetts and California that have led the nation in the prevention and control of tobacco have used the combined approach of increasing tobacco taxes and dedicating a portion of the tax revenues to fund comprehensive statewide programs. Cigarette excise tax increases are currently being proposed in 23 states by both Republican and Democratic governors and legislatures.

Advantages of an Increased Tobacco Tax
Potential advantages of an increase in Wisconsin’s tobacco tax include:

- Reduced consumption and prevalence, especially among young people and low-income populations: Extensive evidence has established that increasing the price of cigarettes encourages quitting, prevents smoking initiation, and reduces consumption. 5 Further, reductions in consumption and/or prevalence are more likely among young people and low-income smokers in response to price increases. 6 Figure 1 shows the inverse relationship between inflation-adjusted cigarette prices and consumption in Wisconsin between 1970 and 2002. 7

- Improved public health: Based upon previously published estimates of the impact of price on smoking rates, Chaloupka projected that a $1.00 increase in Wisconsin’s cigarette tax would reduce consumption in the state by over 40 million packs per year, prevent over 70,000 young people from starting to smoke and avoid over 30,000 tobacco-related deaths. 7

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Figure 1
Per Capita Cigarette Sales and Cigarette Price, Wisconsin, 1970-2002

<table>
<thead>
<tr>
<th>Year</th>
<th>Real Cigarette Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>1970</td>
<td>$3.70</td>
</tr>
<tr>
<td>1975</td>
<td>$3.20</td>
</tr>
<tr>
<td>1980</td>
<td>$2.70</td>
</tr>
<tr>
<td>1985</td>
<td>$2.20</td>
</tr>
<tr>
<td>1990</td>
<td>$1.70</td>
</tr>
<tr>
<td>1995</td>
<td>$1.20</td>
</tr>
<tr>
<td>2000</td>
<td>$0.70</td>
</tr>
</tbody>
</table>

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Per Capita Sales: 
- 1970: 120 packs per capita
- 1980: 110 packs per capita
- 1990: 100 packs per capita
- 2000: 90 packs per capita

Cigarette Price: 
- 1970: $3.70
- 1980: $3.20
- 1990: $2.70
- 2000: $2.20

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increased state revenues: increasing tobacco taxes increases state revenues. Across the U.S., tax revenues have been shown to rise with rising tax rates, even as cigarette consumption declines. The previously cited example of a $1.00 increase in Wisconsin's cigarette excise tax would be projected to generate more than $350 million in new revenue annually.7

Further, reductions in tobacco consumption and prevalence will lead to reductions in the almost $3 billion Wisconsin pays every year in health care and lost productivity costs.

Disadvantages of an Increased Tobacco Tax
Potential disadvantages of an increase in Wisconsin's tobacco tax include:

Opposition to new taxes: Concern that tax rates overall in Wisconsin are excessive and potentially damaging to the state's economy has led to general opposition to raising taxes of any kind, including tobacco taxes.

Regressivity: Smoking prevalence is highest among low-income groups in Wisconsin. An increase in the tax on cigarettes would, therefore, have the potential to differentially burden low-income smokers who do not reduce smoking in response to the increase.

Cross-border, internet and reservation sales: A significant increase in the cigarette tax may create an incentive for more smokers to purchase their cigarettes from sources not impacted by the tax increase. This would include purchases made over the internet, on Indian reservations and in neighboring states with lower tax rates.

The Evidence Base Supports Public Health and Economic Benefits
There has been considerable attention paid in the literature to these and other arguments against increasing tobacco taxes. Overall, the weight of evidence supports tobacco tax increases as effective and appropriate public health and fiscal policy. What follows here is a brief response to each of the potential disadvantages or obstacles described above.

Opposition to new taxes: The inclination against raising taxes is not supported by public opinion. In a recent survey, an increase in the cigarette tax was supported by almost 70% of Wisconsin voters.8

Further, the state currently makes allowances for other similar tax increases, such as the gas tax for motor vehicles in Wisconsin, which is indexed to the U.S. Consumer Price Index. The cigarette tax is not indexed, and therefore each increase receives scrutiny as a new policy.

In fact, Wisconsin's cigarette excise taxes are currently lower as a percentage of price than they have been since the 1950s. From a high of close to 50% of price in 1972, Wisconsin's cigarette excise tax had fallen to account for approximately 20% of price by 2001.9 Advocates point out that as cigarette prices have risen and state excise taxes have fallen as a percentage of price, the state has continued to pay the health and economic costs of smoking while the tobacco companies reap a greater share of the revenues.

Regressivity: To avoid the potential for increased economic hardship among those remaining low-income smokers who are unable to quit or reduce in response to a price increase, a range of policy options has been proposed, including enhancing resources and access to resources to help low-income smokers quit (e.g., cessation counseling and medications), and targeting the broader social and economic determinants of smoking by expanding overall programs and services benefiting low-income populations.

Also central to the discussion of the impact of tobacco tax increases is the fact that those in the lowest income groups, since they are the most likely to smoke, are the most affected by tobacco-related disease. They are also the most likely to quit when the price of cigarettes increases: lower income smokers have been estimated to be more than three times more likely to quit in response to a 50% price increase than higher income smokers.6

Cross-border, internet and reservation sales: Recent studies have found that while some tax avoidance behavior does occur in response to tobacco price increases, the impact is limited. The majority of smokers continue to purchase cigarettes by the pack and through the most accessible outlets such as convenience stores and drug stores.10 Further, states can take action to reduce tax avoidance. Illinois, and a number of other states, for example, have recently proposed laws that would allow for more stringent enforcement of tax collection for purchases made through the internet.

Conclusion
A large and growing body of scientific evidence has established that raising the price of tobacco through increased taxes is a powerful policy tool for reducing tobacco use, especially among youth and low-income populations. An increase in the tobacco tax is, however, only part of the answer. State programs that have achieved the greatest impact have implemented tobacco tax increases in conjunction with dedicated funding for comprehensive tobacco control programs. Targeted resources to help low-income smokers quit, and measures to prevent or reduce tax avoidance are important elements of a model program. This model applies now more than ever to all states, including Wisconsin. With the state deficit crisis looming, in part driven by rising health care costs, the combined impact of significantly increased cost and an aggressive, multifaceted tobacco control program will be needed to address the health and economic burden of tobacco use.

References