

Excise Taxes on Cigarettes and Other Tobacco Products Should be Raised, and Tax Parity Instituted Between Cigarettes and Cigar Products, to Cut Tobacco Consumption and Raise Revenues to Support Tobacco Control Programs.

The American Legacy Foundation® supports increases in excise taxes on cigarettes and other tobacco products, as well as tax parity between cigarettes and cigar products, as part of a comprehensive tobacco control program.¹ These steps will both decrease tobacco consumption and raise revenues for prevention and cessation services. The federal tax on cigarettes was increased on April 1, 2009 as part of the Children's Health Insurance Program Reauthorization Act (CHIPRA), and is now \$1.01 per pack. State tobacco tax rates range from 7 cents (South Carolina) to \$2.58 (New Jersey).^{2,3}

- **Tobacco taxes decrease tobacco use.** Research shows that increasing taxes on tobacco and thereby raising its cost is one of the most effective ways to reduce tobacco use.^{4,5,6} Higher cigarette prices discourage youth from smoking⁷ and make it more likely that adult smokers will quit.⁸ Price affects virtually all measures of cigarette use, including per-capita consumption,⁹ smoking prevalence¹⁰ and the number of cigarettes smoked daily.¹¹ These effects apply across a wide range of racial and socioeconomic groups.¹²
- **Tobacco taxes raise revenue that can be used for tobacco control programs.** An increase in federal and state excise taxes on tobacco products, including smokeless tobacco, would also bring in more revenue for smoking cessation programs and prevention campaigns which would, in turn, enhance the impact of the tax and further reduce consumption.
 - Research shows that state cigarette tax increases raise state revenues while, at the same time, reducing the number of cigarette packs sold.¹³ Part of this revenue should be used to ensure the stability of prevention and cessation programs, many of which have lost funding due to budget cuts.¹⁴
 - Research also shows that when price increases are accompanied by comprehensive tobacco control programs, their combined impact can be strengthened.¹⁵ For example, when New York City accompanied increases in local cigarette taxes with other tobacco control services and activities, cigarette smoking among adults declined by 19% between 2002 and 2006.¹⁶ In Oregon, a study found that the combination of an excise tax increase and the state's Tobacco Prevention and Education Program decreased taxable per capita cigarette consumption by 11%.¹⁷

All cigar products should be taxed at the higher rates now applicable to cigarettes and little cigars. As part of the recent increase in federal tobacco excise taxes, cigarettes and little cigars (a product which mimics cigarettes except that it is wrapped in tobacco leaf as opposed to paper) are currently taxed at the same rate. All other cigar products, including cigarillos (smaller versions of traditional cigars but larger than little cigars), are taxed at differential rates depending on the manufacturer's price. Some of these cigar products, particularly those that are more expensive, are taxed at significantly lower rates than cigarettes and little cigars. However, just like cigarettes, all cigars cause lung, oral, laryngeal, and esophageal cancers, and chronic obstructive pulmonary disease (COPD).¹⁸ The disproportionately low tax on some cigars and cigarillos maintains their price advantage, a factor which has been cited as a reason for increasing rates of consumption.^{19,20} Moreover, because the tax laws differentiate between large cigars (including cigarillos) and little cigars based on weight, tobacco companies may be able to reduce the impact of the new higher taxes by making relatively small adjustments to the sizes of their cigar products.

- **Tobacco taxes are good social policy.**

- Contrary to the arguments of tobacco excise tax opponents, excise taxes do not "addict" governments to tobacco revenue, creating perverse incentives to keep tobacco use high. Studies show that increased taxes have brought in more new state revenue even as consumption falls.¹¹ States also achieve off-setting savings in tobacco related health care costs from declines which accompany lower smoking rates.²¹ Nonetheless, we look forward to the day when revenues do ultimately fall because it will reflect significant declines in tobacco consumption and accompanying health benefits.
- The benefits of excise taxes will disproportionately benefit low-income smokers because smoking prevalence is higher among low-income persons and low-income smokers are much more sensitive to price increases.^{2,10} The resulting health benefits to low-income "quitters" will far outweigh any concern that purely from a tax perspective, excise taxes are regressive. It is important, however, to ensure that tax increases are accompanied by steps to assure that smoking cessation and related services are made available to low-income smokers who have less access to these services than other smokers.

SOURCES

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