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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 increases in tax evasion and smuggling that can be prompted from a cigarette tax increase or the smoking declines from the tax increases. The more important point is that the cigarette tax increases worked effectively to increase state revenues significantly (often enormously) in each and every case. The fact that some states have expected larger revenue increases than they obtained simply means that states should make more careful projections and increase their cigarette tax rates by larger amounts in order to make sure there are no fiscal surprises.

C. There are very good models and formulas available for projecting state revenues from proposed cigarette tax increases that take full account of possible increases in tax evasion and smuggling.
Despite being fiscally conservative, these models show that states will still enjoy substantial additional new revenues from significant cigarette tax increases. States that use these conservative models can be assured that there will be no "lower-than-expected" problems with future state cigarette tax revenues following the increase. [TFK's model and formulas for projecting state revenues from cigarette tax increases, for example, are not only quite conservative but also much more sophisticated and comprehensive than the models and formulas used by some states. See TFK's Explanations & Sources for TFK Projections of New Revenues & Benefits from State Cigarette Tax Increases, http://www.tobaccofreekids.org/research/factsheets/pdf/0281.pdf]

D. States can avoid less-than-expected new revenues from cigarette tax increases by avoiding administrative mistakes.

- Most fundamentally, any state that increases its cigarette tax rate should be sure to follow standard practice and apply the cigarette tax increase to all cigarettes held in wholesaler or retailer inventories on the effective date of the increases ("inventory tax" or "floor stocks tax"). Virtually all states and the federal government remember this inventory tax, but some states (e.g., Illinois, Alabama, and Alaska) have failed to do so in the past. As a result, distributors and retailers there were able to evade the tax by sharply building up their cigarette pack inventories prior to the tax- increase effective date, paying the pre-increase rate, and then selling those under-taxed packs for months afterwards until their tax-evading inventories ran out.
- By providing as little lead time as possible between the date the cigarette tax increase is passed and its actual effective date, states can also minimize the extent to which continuing smokers can stock up prior to the increase and avoid paying the increased tax until their hoard runs out. A related strategy is to cap the amount of tax stamps that wholesalers can buy and apply during the three months prior to the tax increase effective date at five percent more than the amount they purchased during those months in the prior year – and a similar anti-stockpiling cap could be placed on wholesaler sales to retailers.
- Many states provide the wholesalers who apply state tax stamps to packs with a discount on the price they pay for the tax stamps to cover their tax-stamping costs. This discount, which reduces the state's net cigarette tax revenues, is often set as percentage of the state's cigarette tax rate. Accordingly, if this discount percentage is not reduced when the state substantially increases its tax rate, the state will lose revenue and the wholesalers will enjoy windfall tax discounts.
- It is also important to make sure that all state tax law definitions are comprehensive and free from any loopholes. For example, the "cigarette" definition should reach any and all cigarettes and not allow any cigarettes to qualify wrongfully as "cigars," the "smokeless tobacco" definition should reach any product containing tobacco intended or expected to be consumed without being combusted, and any weight-based-tax "moist snuff" definition should not include any of the new generation of super-low-weight smokeless tobacco snus, orbs, lozenges, tabs, or pills.

III. Cigarette Company Myth: Cigarette tax increases do not provide a reliable source of future state revenue.

A. Every state that has ever increased its cigarette tax rate has received more revenue than it would have obtained absent the rate increase. [See II.A., above.]

B. The higher revenue levels obtained by cigarette tax increases will decline over time as smoking rates continue to go down, but the revenue changes will be gradual and predictable. There will be no surprises and the state can easily adapt – and the state will be enjoying significantly higher revenues each year than it would have received absent the cigarette tax rate increase. [See TFK Factsheet, Tobacco Tax Increases are a Reliable Source of Substantial New State Revenue, http://tobaccofreekids.org/research/factsheets/pdf/0303.pdf.]

C. State cigarette and overall tobacco tax revenues are much more predictable and stable than state income tax or corporate tax revenues, which can decline sharply during recessionary periods. [State budget reports provide useful examples of revenue sources that are much more erratic than cigarette tax revenues.]

D. A state could easily compensate for the slow and predictable tobacco tax revenue declines by periodically increasing its tobacco tax rates, instituting an automatic inflation adjustment to its tobacco tax rates, and/or implementing automatic rate increases whenever tobacco tax revenues fall below an established floor. One effective inflation adjustment could be based on the inflation adjustment used for state tobacco settlement payments (i.e., an annual increase of 3 percent or the actual rate of inflation for the prior year, whichever is highest). Another approach is to link the tax rates on all other tobacco products directly to the cigarette tax rate so that they all go up automatically whenever the cigarette tax rate is raised.

E. Smoking declines that reduce state cigarette tax revenues also lock in larger reductions to state government, private sector, and household smoking-caused costs. The substantial monetary savings from lower state smoking levels will, over time, more than make up for any cigarette tax revenue reductions. [See TFK Factsheet, Benefits & Savings from Each One Percentage Point Decline in Adult and Youth Smoking Rates in the United States (state-specific versions of this factsheet are available by request), http://tobaccofreekids.org/research/factsheets/pdf/0235.pdf.]

F. States can maximize their tobacco tax revenues (and related public health benefits) by ensuring that their tax rates on tobacco products other than cigarettes match their cigarette tax rates. A portion of any cigarette tax revenue decline comes from some smokers shifting to other tobacco products, which are typically much cheaper because of much lower state tax rates on tobacco products other than cigarettes. By raising their tax rates on other tobacco products to parallel the cigarette tax rate, states can not only promote tax equity and fairness, but also enjoy substantial increases to overall state tobacco tax revenues. In addition, equalizing the tobacco tax rates will promote quitting (by making it impossible to evade higher cigarette taxes by shifting to other tobacco products), which will lock in even larger state public health gains and related cost savings.

IV. Cigarette Company Myth: Cigarette tax increases will promote cigarette smuggling, black markets, and smoker tax avoidance, which will eliminate state revenue gains.

A. Every single state that has significantly increased its state cigarette tax rate has enjoyed substantial

increases in state revenue. – despite the consumption declines prompted by the tax increase and any related tax avoidance, black market sales or smuggling. Smuggling and other tax evasion only reduce the total amount of net new additional revenues the states receive from cigarette tax increases; they do not come close to eliminating revenue gains or making tax increases unproductive. [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 smuggling/tax avoidance problem is a lot smaller than the cigarette companies and their allies say. Smuggling and tax evasion are worst in those jurisdictions with the highest state-local cigarette tax rates and the most established smuggling and tax evasion infrastructures and customs (e.g., Chicago and New York City). In comparison, the vast majority of states – with lower actual or proposed cigarette tax rates and much less established smuggling infrastructures or tax evasion patterns – have little to worry about. But even Chicago and New York City have each gained substantial new revenues from their cigarette tax increases, despite worries of smuggling and tax evasion. [See the above-referenced TFK factsheet.]

C. There are simple, low-cost, steps a state can take to minimize any revenue reductions from cigarette smuggling or smoker tax evasion. One particularly useful strategy is to implement high- tech tax stamps that cannot be counterfeited and enable enforcement officials to readily identify smuggled cigarettes. California introduced a new high-tech tax stamp and saw its cigarette tax revenues go up by roughly $100 million in the following 20 months (with no rate increase). [See the TFK factsheets, State Options to Prevent and Reduce Cigarette Smuggling and to Block Other Illegal State Tobacco Tax Evasion, http://tobaccofreekids.org/research/factsheets/pdf/0274.pdf; The Case for High-Tech Cigarette Tax Stamps, http://tobaccofreekids.org/research/factsheets/pdf/0310.pdf; and the TFK materials on curtailing illegal Internet cigarette sales and purchases that evade paying taxes, http://www.tobaccofreekids.org/facts_issues/fact_sheets/policies/smuggling_evasion/.]

D. The Internet is no longer a viable option for evading paying cigarette taxes. The federal Prevent all Cigarette Trafficking (PACT) law designates cigarettes as nonmailable matter and implements other measures to stop illegal Internet sellers from using the U.S. mails to avoid complying with state tax and tobacco laws. That should sharply reduce and prevent any tax evasion and contraband trafficking that uses the Internet or other mail-order sales.[2]

V. Cigarette Company Myth: Cigarette tax increases are regressive and hurt poor people.

A. The cigarette companies have it backwards: it is the harms from smoking that are regressive. Lower-income communities already suffer disproportionately from smoking-caused disease, disability, death, and costs. By prompting more lower-income smokers to quit and cut back, raising state cigarette tax rates will reduce those regressive harms and costs, directly helping lower-income smokers and also reducing smoking-caused costs and harms to their families. [See the TFK Factsheet State Cigarette Tax Increases Benefit Lower-Income Residents, http://tobaccofreekids.org/research/factsheets/pdf/0147.pdf.]

B. Smokers who quit or cut back because of a cigarette tax increase save a lot of money, and most of those who quit or cut back are low-income smokers. Because lower-income smokers are more likely than higher-income smokers to quit or cut back in response to a cigarette tax increase, lower- income smokers are more likely to end up actually getting a big tax cut. Smokers who quit or cut back because of a tax increase not only stop paying any cigarette taxes but also stop spending any of the other amounts they previously paid for cigarettes. Calculating the monetary savings for a pack-a-day smoke who quits (or a two-packs-a-day smoker who cuts back to one pack) is quite revealing, with average savings ranging from $1,000 to $2,300 per year, depending on the state. [See TFK factsheet for state- specific information on how much smokers can save from quitting or cutting back, Immediate Smoker Savings from Quitting in Each State, http://www.tobaccofreekids.org/research/factsheets/pdf/0337.pdf]

C. Most of the benefits from the quitting after a cigarette tax increase are enjoyed by low-income smokers and their families; but continuing higher-income smokers pay the lion's share of the higher tax rate. Nationwide, 60 percent or more of all smokers have incomes greater than 200 percent of the poverty line; but roughly three out of every four smoker who quits because of a cigarette tax increase will have incomes below 200 percent of the poverty line. [See, e.g., the joint TFK factsheet with the Center for Budget & Policy Priorities, Expanding Children's Health Insurance and Raising Federal Tobacco Taxes Helps Low-Income Families (similar calculations could be made for any proposed state cigarette tax increase), http://tobaccofreekids.org/research/factsheets/pdf/0322.pdf.]

D. Most of the reductions to smoking-caused disease and other harms produced by cigarette tax increases will occur in lower-income households. Because most of the smokers who quit or cut back due to a cigarette tax increase have lower incomes, most of the public health benefits from the tax-increase smoking declines (including reduced family exposure to secondhand smoke) will be enjoyed by lower-income households.

E. Polls consistently find strong support for tobacco tax increases among lower-income communities. Nobody wants cheap cigarettes in their neighborhoods. [See, e.g., TFK Factsheet, Voters Across the Country Support Significant Increases in State Tobacco Taxes, http://tobaccofreekids.org/research/factsheets/pdf/0167.pdf.]

F. The new revenues from cigarette tax increases can be used to fund new programs that benefit low-income communities (or avert cuts), including tobacco prevention and cessation assistance programs.

G. By reducing smoking levels, cigarette tax increases also reduce government smoking-caused costs, thereby shrinking the large amounts low-income and other households are currently paying in taxes to cover smoking-caused government expenditures. [See, e.g., TFK Factsheet, Smoking-Caused Federal & State Government Expenditures and Related Tax Burdens on Each State's Citizens, http://tobaccofreekids.org/research/factsheets/pdf/0096.pdf.]

VI. Cigarette Company Myth: Cigarette tax increases unfairly target smokers and make them shoulder the burden for statewide budget problems.

A. Total state revenues from cigarette taxes (and tobacco settlement payments) are currently far less than conservative estimates of smoking-caused costs in the state. [For actual state-specific data to show comparisons, see TFK Factsheets, State Tobacco-Related Costs & Revenues, http://tobaccofreekids.org/research/factsheets/pdf/0178.pdf, and State Tobacco-Prevention Spending vs. State Tobacco Revenues, and http://tobaccofreekids.org/research/factsheets/pdf/0219.pdf.]

B. After any politically possible increase, the state cigarette tax per pack will still be far less than the state's smoking-caused healthcare costs and related productivity losses per pack. According to the U.S. Centers for Disease Control & Prevention (CDC), the national average is $10.47 per pack (and that total does not even include all smoking-caused productivity losses. [See TFK Factsheet State Cigarette Tax Rates & Rank, Date of Last Increase and Related Data, http://tobaccofreekids.org/research/factsheets/pdf/0099.pdf, for state health costs per pack.]

C. To make the tax increases even more fair to smokers (and better for public health), the state should allocate a portion of the new tax revenues to initiate or expand programs to help adult and youth smokers quit (e.g., quitlines, public education, school-based programs, etc.). Doing that would cost no more than a few pennies per pack of the tax increase.

D. Smokers who do not want to pay the tax increase can quit smoking or cut back. While quitting is not easy, the whole point of cigarette tax increases from a public health perspective is to make smoking more expensive so that more current smokers will quit (and fewer kids will become new smokers). Moreover, as shown above, the economic and health benefits to each smoker who quits or cuts back (and to his or her family or household) is far greater than the increased costs to those who continue smoking as before. [See, also, TFK Factsheet, SCHIP Federal Tobacco Tax Rate Increases: Small New Payments By Continuing Tobacco Users But Big Savings For Tobacco Users Who Quit, http://tobaccofreekids.org/research/factsheets/pdf/0324.pdf (similar calculations could be made for any proposed state cigarette tax increase, as well).]

VII. Cigarette Company Myth: The state is already getting tons of tobacco money; seeking more is excessive.

A. See VI.A., above.

B. Adding state tobacco settlement payments to state tobacco tax receipts still does not show any excessive state demands on tobacco products for revenue. To try to make additional cigarette tax increases look unfair, the cigarette companies like to total up all the revenues a state gets from tobacco products, including the payments made to the state from the tobacco settlement agreements with the major cigarette companies. But there is nothing unfair or excessive about the states getting those settlement payments, which are meant to reimburse the states for their past and future costs caused by the cigarette companies illegal and wrongful acts prior to the settlement of the states' lawsuits against the major cigarette companies.[3] In addition, the amount the states are getting from those settlement payments are significantly less than the total of the states' actual costs from the cigarette companies' wrongful acts. Moreover, even if annual tobacco settlement payments to a state are added to its tobacco tax revenues, the total is still less than just the smoking-caused healthcare costs in the state and makes up an even smaller portion of all smoking-caused costs in the state.

VIII. Cigarette Company Myth: The state (or federal, state, and local government) is already getting more per pack than the cigarette companies.

A. Every state actually suffers a net loss for every pack sold within its borders, but the cigarette companies make a net profit on every pack sale. The cigarette companies' comparison between their alleged profits per pack against total state or government revenues per pack is unfair and misleading. Company profits per pack equal what the companies gain, free and clear, after paying for all their costs associated with producing and marketing the cigarettes they sell. For example, recent SEC filings indicate that Philip Morris USA (the largest U.S. cigarette company) had per-pack profits of 51¢ per pack in 2007, with RJ Reynolds (the 2nd largest) having profits of 37¢ per pack. In contrast, the state's "profit" (or loss) per pack equals the state's cigarette tax revenues minus the state's cigarette-caused costs; and doing the math shows that every state has a per-pack loss. Those state per-pack losses even hold true when tobacco settlement payments to the state are counted as state cigarette revenues, as well. [The fact that each state is a net loser from smoking in the state can be shown by subtracting CDC's state smoking-caused costs per pack totals from each state's actual or proposed per-pack tax (and state tobacco settlement payments per pack could be added in, too). But the CDC estimates of state costs per pack are not even comprehensive (they include only smoking- caused health costs and a portion of related productivity losses; other productivity losses and non- health costs from smoking are not included). See TFK Factsheet State Cigarette Tax Rates & Rank, Date of Last Increase and Related Data, http://tobaccofreekids.org/research/factsheets/pdf/0099.pdf.]

B. Adding state tobacco settlement payments per pack sold in the state does not make sense, and does not change the math: the states are still net losers from smoking. See VIIB., above. Dividing current state settlement receipts by the number of packs sold could provide a per pack state settlement revenue figure which could can be added to the state's cigarette tax rate. But that total would still be significantly lower than the smoking-caused costs in the state per pack. Note, also, that the cigarette companies are able to take a big "business expense" tax deduction for all of their tobacco settlement payments, which reduces their taxes by at least $1.0 to $1.5 billion per year (thereby increasing their per-pack profits).4 [See TFK Factsheet, Actual Payments Received by the States from the Tobacco Settlements, http://tobaccofreekids.org/research/factsheets/pdf/0286.pdf.]

C. It does not make sense to include state sales tax revenues on cigarette sales as state cigarette income because sales taxes apply to virtually all non-necessity products sold in the states and are neither tobacco-specific nor meant in any way to compensate the state for tobacco-caused harms. But even if sales tax revenues from cigarettes were included, the state would still be receiving less revenue per pack than is lost to smoking-caused costs per pack in the state.

D. Even if we look just at tax revenues per pack (and ignore the much larger costs per pack suffered by each state) state tax revenues per pack sold in the state are almost always less than the cigarette companies' total revenues per pack. The major cigarette companies currently receive, on average, more than $2.50 per pack in gross revenues. But only eight states have cigarette tax rates higher than that. Moreover, the cigarette companies are not the only members of the tobacco industry that profit from each pack sale – cigarette distributors and retailers also gain profits from every pack sold in a state, and including their revenues makes the tobacco industry's total revenues per pack exceed every state's cigarette tax rate. In addition, as discussed above, the cigarette companies make a clear profit on each and every pack sold but each and every states, including those with the very highest cigarette tax rates, has a net loss per each pack sold because of smoking-caused harms and costs in the state. [See TFK Factsheet State Cigarette Tax Rates & Rank, Date of Last Increase and Related Data, http://tobaccofreekids.org/research/factsheets/pdf/0099.pdf.]

IX. Cigarette Company Myth: Cigarette tax increases will hurt the state's economy by reducing cigarette sales and related employment, retailer revenues, etc.

A. Money spent currently on cigarette sales will not disappear when the smoking declines from a cigarette tax increase reduces cigarette sales, it will simply shift to consumer expenditures on other products or to consumer savings or investments. Smokers who quit or cut back will spend or use the money they formerly spent on cigarettes in other ways – and those alternative uses may produce more jobs or more productive economic activity than spending on cigarettes. In addition, most states are exporting a large portion of its own consumers' expenditures on cigarettes to those tobacco states where cigarettes are manufactured and tobacco leaf is grown – which helps only those tobacco states' economies. Shifting consumer expenditures on cigarettes to other products or other uses is likely to keep more of the money in the state, where it will generate new in-state jobs and other beneficial economic activity in the state.

B. Economic studies have found that even if smoking were entirely eliminated in the United States, the net economic effect on each state would be positive (except in a few of the major tobacco states), with more jobs created as well as other increases in productive economic activity.[5] Even in the states with the highest levels of tobacco farming and cigarette manufacturing, the economic consequences from eliminating all U.S. smoking would be minimal – and the increasing diversification of those states' economies since the studies were done has likely eliminated the possibility of any net negative impacts there, as well. In any case, these studies show that the kinds of smoking reductions possible from raising state cigarette tax rates (even by very large amounts) will not produce any negative net overall economic consequences in any state.

C. A Maryland study of the impact of a state cigarette tax increase on near-border retailers by the State Comptroller found that: "When all taxable sales throughout the entire study area for retailers typically selling cigarettes are examined, there is no evidence that the increase in tobacco taxes has had a direct and measurable impact on gross revenues."[6] [TFK Factsheet, State Cigarette Tax Increases, Retailers, & Jobs, http://tobaccofreekids.org/research/factsheets/pdf/0330.pdf.]

D. State-specific economic impact studies have found that substantial cigarette tax increases in those states would actually increase total state employment – and that reduced cigarette sales have, historically, been linked with increased state retail employment.[7] Related, two recent studies found that state cigarette tax increases and declines in cigarette consumption do not have a negative impact on the number of convenience stores or employment in convenience stores.[8]

E. A cigarette tax increase will reduce government and business smoking-caused expenditures and costs, which further strengthens and improves the state's economy – especially because those savings are inevitably shifted to much more productive uses.

F. By reducing smoking, cigarette tax increases improve worker productivity. CDC currently estimates that productivity losses caused by smoking amount to more than $97 billion per year – and that total does not even include business losses from cigarette breaks, increased sick days, or from workers being less productive when on the job because of smoking caused health problems.[9] Reducing smoking rates among the workforce would directly reduce these productivity losses, thereby strengthening the state's economy. [CDC productivity loss estimates available from TFK Factsheet, State Tobacco-Related Costs & Revenue, http://tobaccofreekids.org/research/factsheets/pdf/0178.pdf.]

G. Directing the new state government revenues from a cigarette tax increase to reduce state budget deficits or to fund economically productive programs (such as increased tobacco prevention) will further improve the state's fiscal health and strengthen the state economy.

X. Cigarette Company Myth: Cigarette tax increases will hurt the state's tobacco farmers.

A. Even eliminating all smoking in any particular state would have only a very minor impact on the overall demand for American-grown tobacco leaf – and proposed state cigarette tax increases will not (unfortunately) even reduce smoking by half. Overall, U.S. smoking accounts for less than half of the total demand for U.S. tobacco leaf, which is also smoked overseas in cigarettes that are exported or foreign-made. Accordingly, even very large smoking declines in any particular state will have only an imperceptible impact on the overall demand for American tobacco leaf. See TFK Factsheet, State Cigarette Tax Increases Will Not Hurt U.S. Tobacco Growers or Cigarette Factory Workers, http://tobaccofreekids.org/research/factsheets/pdf/0150.pdf, [state-specific versions are available by request: factsheets@tobaccofreekids.org.]

XI. Cigarette Company Myth: Cigarette tax increases will reduce the state's tobacco settlement payments.

A. There is no automatic offset that reduces tobacco settlement payments to the state if the state increases its cigarette taxes. [There was such an offset for certain federal cigarette tax increases, but even that provision expired in 2002.]

B. State smoking or pack sales declines have only a small, indirect effect on settlement payment adjustments. The "volume adjustment" that reduces settlement payments to the states is based only on reductions to nationwide (not state) cigarette sales of the major cigarette companies. Any reduction in pack sales prompted by a state cigarette tax increase in any given state would have only a very small impact on those nationwide sales – and even less of an impact on the downward volume adjustment given the formulas in the settlement agreements. In addition, those states that reduces their own smoking rates and pack sales faster than the nationwide average will be the net winners, as far as the nationwide downward volume adjustment goes – reaping disproportionately large public health benefits and cost savings from their smoking declines compared to the amount their settlement payments are reduced. [See the TFK Factsheet, Effect of State Tobacco-Tax Increases on MSA and Phase II Payments to the States, http://tobaccofreekids.org/research/factsheets/pdf/0197.pdf.]

XII. Cigarette Company Myth: Cigarette tax increases will reduce the revenues of low-tax "supplier" states by eliminating or reducing state cigarette sales to smokers in other states (e.g., it will reduce a state's cross border sales, Internet sales, and sales to interstate smugglers).

A. This argument applies only to very low-tax states or to states with cigarette tax rates significantly lower than neighboring states that serve as suppliers to tax-evading sales to other states' smokers or to smuggling enterprises. But even in regard to those states, this argument fails.

B. Supplier states will receive substantially more state revenues from increasing their relatively low state cigarette tax rates than they will lose from any corresponding reduction to their sales to cigarette smugglers, law-breaking internet sellers, or tax-avoiding shoppers from other states. In many cases the new state revenues from the cigarette tax increase will not only exceed current state tax revenues from sales to out-of-state buyers but also exceed all retailer profits from those sales to out-of-state buyers. Significantly raising a relatively low state cigarette tax rate brings in large amount of money directly to the state government. But having a low state tax rate does the state government little good and provides only marginal benefits to in-state distributors and retailers that sell to illegal buyers.

C. Low-tax states should not support the in-state sale of cigarettes to illegal smugglers, internet sellers, or tax-avoiding shoppers from other states. By raising their cigarette tax rates, low-tax supplier states can not only raise their own revenues but also reduce or eliminate the illegal profit margins from these criminal activities, thereby reducing the extent of such smuggling and tax evasion.

XIII. Cigarette Company Myth (the "death benefit"): Cigarette tax increases will not save money because the smoking reductions from the cigarette tax increase will reduce the number of people dying early from smoking, which means that more people will be requiring state healthcare and other services for longer lifetimes.

A. The average smoker actually has significantly higher total lifetime healthcare costs than the average nonsmoker, even though the average smoker dies a lot sooner than the average nonsmoker. So reducing smoking always reduces total healthcare costs.[10]

B. The vast majority of alleged non-health "death benefit" expenditure reductions from smokers dying early relate to Federal (not state or local) government programs. (e.g., Social Security and housing subsidies) – and those are offset by other savings and benefits from smoking reductions.

C. Any increased expenditures caused by kids not starting and smokers quitting and living longer would occur only at the very end of the smokers' lives (the extra years they get to enjoy because they quit or did not start), but the savings in avoided smoking-caused costs start a lot sooner, if not immediately. On average, when smokers quit, their health problems and costs start to decline immediately and their productivity increases. Similarly, when youth are prevented from smoking, they avoid an entire lifetime of smoking-caused increased costs and lost worker productivity. In both cases, their larger demands on government services from living longer, smoke-free lives, don't start until the very end of their lives. So states that reduce smoking initiation and increase smoker cessation enjoy decades of massive savings and reduced costs before any offset from increased demands for end-of-life services even begins.

D. These "death benefit" arguments are not only ghoulish, but are based on faulty reasoning and bad math. [See TFK Factsheet, Immorality and Inaccuracy of the Death Benefit Argument, http://tobaccofreekids.org/research/factsheets/pdf/0036.pdf.]

XIV. Cigarette Company Myth: Legislators cannot vote for tobacco tax increases if they have taken a "no-new- taxes" pledge.

A. Legislators have a clear responsibility and duty to take action to promote the public good and protect the public health, regardless of what pledges they may have made beforehand. That means supporting tobacco tax increases despite any no-new-taxes pledges or promises.

B. "No-new-taxes" pledges are meant to stop broad-based tax increases made solely for revenue raising purposes (e.g., increases to property, sales or income taxes) – not to block legislative actions, such as tobacco tax increases, that will save lives, reduce suffering, and reduce government, business and household costs.

C. Tobacco taxes are actually user fees, not regular taxes. Taxes on tobacco products simply help to recoup a portion of the enormous costs caused by the sale and use of tobacco products. [See item VI, above.]

D. Unlike other tax increases, those subject to tobacco tax increases may legally avoid them by quitting their tobacco use or cutting back – and doing that will also save them a ton of additional money (all the other money they pay for tobacco products), improve their health and productivity, and reduce other tobacco-caused household costs. Other tax increases cannot be legally avoided without causing the taxpayer considerable economic harm (e.g., income tax increases can be legally avoided only by reducing one's income; sales taxes can be avoided only by reducing one's purchases of many useful and necessary products).

E. Because tobacco products are more harmful than any other consumer products, increasing taxes on tobacco products is different – and more justified and more constructive – than increasing taxes on any other products. There is no way to consume tobacco products safely and tobacco products are unavoidably harmful and deadly even when used exactly as intended. Moreover, tobacco products are highly addictive and tobacco use typically starts before the consumer is of legal age. So increasing the taxes on tobacco products, which directly reduces tobacco use and harms, is much more beneficial than any other tax increases.

F. Strong majorities of voters support tobacco tax increases – and they are more popular among voters than other tax increases and more popular than spending cuts. [TFK Factsheet, Voters Across the Country Support Significant Increases in State Tobacco Taxes, http://tobaccofreekids.org/research/factsheets/pdf/0167.pdf.]

G. No legislator who has taken a no-new-taxes pledge could possibly have meant for that pledge to be used to protect tobacco company sales and profits or to block effective action to reduce the number of the legislator's constituents who will otherwise unnecessarily suffer and die prematurely from tobacco use. Using no-new-taxes pledges to stop tobacco tax increases means more tobacco-caused death, disease, suffering and other harms and costs. That cannot be right.

XV. Cigarette Company Myth: What's next, raising taxes on fatty foods? Raising cigarette taxes is just the first step in the public health Nazi's plan to tax everything that is bad for you.

A. There are strong, clear reasons to treat cigarettes and other tobacco products differently and more harshly than any other consumer products. First, there is absolutely no consumer product or category of consumer product other than cigarettes and tobacco products that inevitably causes disease, disability, and death and enormous social and economic costs even when used exactly as intended and directed. Second, there is also no consumer product or category of consumer products other than cigarettes and tobacco products that, as actually used by consumers, directly causes as much disease, disability, and death and enormous social and economic costs. For example, smoking kills many more people each year than alcohol, illegal drugs, murder, suicide, accidents, and AIDS, combined. Taxing cigarettes works directly to reduce smoking rates and related harms and costs and does not harm or restrict any beneficial uses of cigarettes because there are not any. In sharp contrast, increasing taxes on other consumer products (e.g., alcohol or certain foods) might help to improve public health by reducing abusive uses of those products; but they would also interfere with uses of those consumer products that cause no harm or are actually healthy and productive.

Campaign for Tobacco-Free Kids, January 11, 2012 / Ann Boonn

Additional information on state cigarette taxes and the
many benefits from increasing them is available at
http://www.tobaccofreekids.org/facts_issues/fact_sheets/policies/tax/us_state_local/

Please send any comments, new response ideas,
or new cigarette company anti-tax arguments to:

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[1] In rare cases, a small state cigarette tax increase might not bring in enough new revenue to make up for significant ongoing state pack sales and revenue declines caused by other factors. For example, after New Jersey increased its $2.40 per pack cigarette tax by another 17.5¢ in 2006 (which amounted to only a 3% increase to the average pack price), its total cigarette tax revenues still declined somewhat over the following year. But without the tax increase the state's cigarette tax revenues would have dropped much more sharply. In every other instance besides NJ in 2006, state cigarette tax rate increases have been followed by significant net increases to annual state tax revenues.

[2] Cigarette companies and their allies sometimes try to argue that because of tax evasion and smuggling, cigarette tax increases no longer reduce smoking as effectively as they have in the past. Besides acknowledging that cigarette tax increases have been effective tools for reducing smoking, this argument ignores the following facts: 1) consumption and prevalence declines following significant cigarette tax increases continue to be substantial; 2) those smokers most likely to take steps to evade the higher cigarette tax rate are the most powerfully addicted smokers who were and are the least likely to quit and cut back anyway; 3) those smokers most likely to quit or cut back after cigarette tax increases – such as youth smokers, those already trying or planning to quit, and light or occasional smokers – are also the least likely to take any extra steps to try to evade the cigarette tax increase (other than quitting or cutting back); and 4) any rise in smoker tax evasion would not have any significant impact on the ongoing power of cigarette tax increases to prevent kids from taking up smoking in the first place (by creating higher initial economic barriers to initiation).

[3] Those illegal and wrongful acts – e.g., marketing to kids, failing to disclose known dangers and harms caused by their products, interfering with scientific research and public awareness regarding product harms – have been fully established by court rulings and in the internal industry documents disclosed in various lawsuits against the companies. [See, e.g., the findings of court in the United States lawsuit against the major cigarette companies, United States v. Philip Morris USA, 449 F. Supp. 2d 1, U.S. District Court for the District of Columbia, August 17, 2006. For related summaries and information, see the TFK website at http://www.tobaccofreekids.org/what_we_do/industry_watch/doj_lawsuit/.]

[4] See, e.g., TFK Factsheet, Cigarette Company Settlement-Related Price Hikes Are Excessive, http://tobaccofreekids.org/research/factsheets/pdf/0071.pdf.

[5] Warner, KE, et al., "Employment implications of declining tobacco product sales for the regional economies of the United States," JAMA 275(16):1241-6, April 24, 1996; Warner, KE & Fulton, GA, "The economic implications of tobacco product sales in a nontobacco state," JAMA 271(10):771-6, March 9, 1994; Warner, KE, "Implications of a nicotine-free society," Journal of Substance Abuse 1(3):359-68, 1989.

[6] William Donald Schaefer, Comptroller of the State of Maryland, Letter/Report to Thomas V. Miller, Senate President, and Michael E. Busch, Speaker of the House of Delegates, January 15, 2003.

[7] Gottlob, B, The Fiscal and Economic Impacts of Increasing the Cigarette Tax in New Hampshire, PolEcon Research, March 2003; Gottlob, B, The Fiscal and Economic Impacts of Increasing the Cigarette Tax in Texas, PolEcon Research, in press; Gottlob, B, The Fiscal and Economic Impacts of Increasing the Cigarette Tax in Virginia, PolEcon Research, April 15, 2004.

[8] Huang, J & Chaloupka, FJ, "The economic impact of state cigarette taxes and smoke-free air policies on convenience stores," Tobacco Control, doi:10.1136/tobaccocontrol-2011-050185, published online November 1, 2011. Ribisl, KM, Evans, WN, & Feighery, EC, "Falling cigarette consumption in the U.S. and the impact upon tobacco retailer employment," in Bearman, P, Neckerman, K, & Wright, L, eds. Social and Economic Consequences of Tobacco Control Policy, New York: Columbia University Press, 2011.

[9] CDC, State Data Highlights, 2006, http://www.cdc.gov/tobacco/data_statistics/state_data/data_highlights/2006/index.htm.