



## Higher Prices for Better Health Raising Tobacco Excise Taxes

### OVERVIEW

Cigarette smoking remains a leading cause of preventable disease and death in the U.S., claiming approximately 480,000 lives prematurely every year.<sup>1</sup> Smoking not only takes the lives of those who use tobacco, but also those who are exposed to second-hand smoke.<sup>1</sup> Between 2005 and 2009, 87% of deaths related to lung cancer, 61% of deaths related to pulmonary disease, 32% of deaths due to cardiovascular disease were related to smoking and second-hand smoke exposure.<sup>1</sup> The bottom line is that no tobacco product is safe to use.

Smoking costs the U.S. economy billions of dollars each year, including workplace productivity losses and direct medical care for adults.<sup>1</sup> Importantly, smoking prevalence and healthcare costs are lowest in states with the most tobacco control policies.<sup>2</sup>

Tobacco control efforts have helped prevent an estimated 8 million premature deaths since the 1960s, while also reducing smoking rates by half since the early 2000s.<sup>3</sup> Three out of five U.S. adult smokers have quit smoking cigarettes.<sup>2</sup>

However, tobacco use remains a significant public health problem, particularly among disadvantaged populations. For example, current commercial tobacco product use is higher among non-Hispanic American Indian or Alaska Native adults, adults identifying as LGBTQ, for those adults who are on Medicaid or are uninsured, and those with household incomes of <\$35,000.<sup>4</sup> Additionally, African American children are more likely to be exposed to secondhand smoke than any other racial demographic.<sup>5</sup>

A significant increase in tobacco excise taxes reduces tobacco use, saves lives, raises revenue for states and communities, and lowers health care costs. The taxes are consistently popular among voters.

### TAXES FOR HEALTHIER BEHAVIORS AND OUTCOMES

The 2014 U.S. Surgeon General Report on smoking concluded that increases in cigarette prices lead to substantial reductions in cigarette smoking for both youth and adults.<sup>1</sup> It is estimated that a 10% increase in cigarette prices leads to a reduction of overall cigarette consumption by 3-5%.<sup>6</sup> Additionally, increases in state cigarette taxes is linked to reduction in smoking levels, specifically among young adults.<sup>7</sup>

### CURRENT TAX INFORMATION

The last federal cigarette tax increase of 61.66 cents per pack went into effect in 2009. Today, the rate remains the same, making federal tax on a pack of cigarettes \$1.01 per pack; state rates vary.<sup>8</sup> It is estimated that smoking-related health costs and lost productivity equate to \$20.52 per pack.<sup>8</sup> States have concurrently imposed tobacco excise taxes with a nationwide average of \$1.91 per pack.<sup>8</sup> Currently, electronic cigarettes and other newer tobacco products are not taxed at a federal level, but some states and localities have implemented their own excise tax. However, there is a lack of consistency with taxation methods of e-cigarettes and other vapor products due to the lack of homogeneity of products on the market. Until we have clarity on the relative harms and risk of these tobacco products as determined by the FDA, they should be taxed at parity while trying to raise the tax on combustible products at the same time.

Increasing cigarette tax rate is beneficial to states by reducing tobacco use prevalence and generating revenue. In 2013, Minnesota increased their tax rate to \$1.60 per a pack of cigarettes.<sup>9</sup> A 2015 report evaluating the implementation of this tobacco tax increase found the following:<sup>9</sup>

- Smoking rates among Minnesota youth from 2011 to 2014 decreased from 18.1% to 10.6%
- Adult rates of smoking from 2010 to 2014 declined from 16.1% to 14.4%
- 24% reduction in cigarettes sales (equivalent to 54.6 million packs)
- Over \$204 million in new tax revenue

## FACT SHEET: Tobacco Excise Taxes

- Although opponents of state tobacco increase argue that people who live or work in neighboring states will travel to take advantage of lower rates, evidence found little shift in sales and tax revenue in neighboring states.

## TOBACCO INDUSTRY RESPONSE

Industry reports shows that tobacco companies understand the impact of tax increases on consumption. In response, they mount aggressive opposition campaigns when states or communities propose an increase to their tax. In addition, they have developed pricing strategies, promoted development of lower cost generic brands and price-related marketing efforts like multi-pack discounts and couponing. The latter is an attempt to offset the impact of the taxes and diminish the benefit to public health. Therefore, it is so important to achieve substantial increases of at least \$1.00. To achieve an end to tobacco and nicotine addiction we must continue to adapt to these industry tactics to maintain the health impact and value of tobacco tax strategies.

## ASSOCIATION ADVOCATES

The American Heart Association advocates for significant increases in tobacco excise taxes at the federal, state, county and municipal levels for all tobacco products. Some of these tax revenues should be allocated for tobacco control, prevention, and cessation programs, as well as other health-related initiatives like improving access to health care. In addition, the American Heart Association supports:

- Working with the FDA and the Center for Tobacco
- Products to implement the Tobacco Control Act.
- Taxing e-cigarettes at a percentage that achieves parity with cigarettes while trying to raise taxes on combustibles at the same time
- Enacting comprehensive smoke free air laws across the U.S.
- Ensuring coverage for tobacco cessation treatment and counseling under all health insurance plans
- Evaluating public health consequences of the millions of dollars tobacco companies spend on conventional cigarette & e-cigarette campaigns.

## References

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