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### **Five Things to Consider Before Raising Tobacco Taxes:** *A Review of the Research*

By Eli Lehrer\*

#### **Introduction**

Tobacco use poses well-known health risks. Smokers, on average, die earlier than nonsmokers.<sup>1</sup> Estimates of lost life expectancy range from two or three years to 14 years; most researchers agree on six to eight years.<sup>2</sup> A 2004 Surgeon General's

report concluded that smoking contributes to at least 16 potentially fatal conditions and dozens of other problems ranging from low bone density to complicated pregnancies.<sup>3</sup>

Imposing high taxes on tobacco products is widely used to discourage smoking.

At the federal, state, and local levels of government in the United States, public policies have been used consistently to discourage tobacco use. Imposing high taxes on tobacco products is widely used to discourage smoking. Tobacco control advocates who support very different ways of discouraging the use of tobacco products say "tax increases [should] remain a central tenet of

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<sup>1</sup> Centers for Disease Control and Prevention, "Annual Smoking Attributable Mortality," *Mortality and Morbidity Weekly Report*, April 12, 2002, <http://www.cdc.gov/mmwr/preview/mmwrhtml/mm5114a2.htm>.

<sup>2</sup> Kip Viscusi, "The New Cigarette Paternalism," *Regulation*, Winter 2002–2003, Cato Institute, page 59.

<sup>3</sup> U.S. Department of Health and Human Services, *The Health Consequences of Smoking: A Report of the Surgeon General* (Atlanta, GA: U.S. Department of Health and Human Services, Centers for Disease Control and Prevention, National Center for Chronic Disease Prevention and Health Promotion, Office on Smoking and Health), 2004.

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tobacco control policies.”<sup>4</sup> Some thinkers who support decreases in nearly all other kinds of taxes have expressed indifference toward or even support for increases in tobacco and other “sin” taxes.<sup>5</sup>

Anyone considering a proposal to increase tobacco taxes should recognize the following five realities with significant support in the academic research on tobacco control.

Despite this context, it does not follow that taxes on tobacco products ought to be raised any higher than they are. Taxes on tobacco products already are so high in most places that legislators in the U.S. should be skeptical of proposals to increase them any further. In some cases and in some places, it is possible that some legitimate public health goals

might be advanced through higher or different kinds of taxation, but the bulk of the evidence argues against further increases in tobacco taxes.

Anyone considering a proposal to increase tobacco taxes should recognize the following five realities with significant support in the academic research on tobacco control:

1. Current costs imposed on smokers – the costs they impose on themselves, as well as the costs imposed by government – typically exceed the social costs of smoking.
2. Tobacco taxes place a much larger burden on lower-income people than on the well-off.
3. Tobacco tax increases are not necessarily the best way to discourage smoking.
4. Black markets for cigarettes develop as taxes rise.
5. Tobacco taxes often produce less revenue than expected and sometimes reduce revenue overall.

This *Policy Brief* analyzes and explains these realities.

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<sup>4</sup> Anna Gilmore, et al., “The Case for OFSMOKE: How Tobacco Price Regulation Is Needed to Promote the Health of Markets, Government Revenue and the Public,” *Tobacco Control*, Vol. 19, 2010, pages 423–430.

<sup>5</sup> See e.g., “On Economic Growth: Three Questions for Art Laffer,” *Insider Online*, The Heritage Foundation, 2011, <http://www.insideronline.org/blogarchive.cfm?blogid=7DDD63FA-CAA3-C1AA-53365E715DE16B0B>.

## 1. Current costs imposed on smokers typically exceed the social costs of smoking.

Cigarettes are already the most heavily taxed commodity in the United States. All states tax them, at rates ranging from 17 cents per pack (in Missouri) to \$4.35 (in New York). The federal government adds \$1.01 in taxes per pack.<sup>6</sup>

Localities in some states can set additional taxes, which further increase the per-pack tax – to as high as \$5.85 in New York City.<sup>7</sup>

Sales taxes of as much as 10 percent are also added to the purchase price of cigarettes, and other taxes on the tobacco industry – such as income and property taxes paid by sellers, shippers, and manufacturers – also work their way into the retail prices.

One study finds smokers pay more than \$15 for every \$1 in costs they impose on society.

Smokers impose far more costs on themselves than on society. They pay the same Social Security taxes as nonsmokers but, since they tend not to live as long, get fewer benefits. They are more likely to become disabled, and they tend to pay more for medical care.

A few costs – medical care, lost productivity of smokers, and the like – are imposed by smokers on the rest of society. One study finds smokers impose costs on society of about \$2.85 per pack of cigarettes in 2011 dollars.<sup>8</sup> That study finds smokers pay more than \$15 for every \$1 in costs they impose on society.<sup>9</sup>

Some older studies have found a positive economic impact (though of course not a positive human health impact) from smoking, as a result of all the costs borne by smokers.<sup>10</sup>

If one accepts the notion – as the author of the most recent peer-reviewed study on the topic does

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<sup>6</sup> National Conference of State Legislatures (NCSL), “State Cigarette Excise Taxes, July 2010,” <http://www.ncsl.org/default.aspx?tabid=14349#Rate>.

<sup>7</sup> Campaign for Tobacco Free Kids, “State Cigarette Excise Tax Rates and Ratings,” <http://www.tobaccofreekids.org/research/factsheets/pdf/0097.pdf>.

<sup>8</sup> Rajeev Cherukupalli, “A Behavioral Economics Perspective on Tobacco Taxation,” *American Journal of Public Health*, April 2010, Vol. 100, No. 4. Cherukupalli’s calculations are based largely on sums as of 2000, and his paper actually concludes the cost is \$2.20 in 2000 dollars. According to the Bureau of Labor Statistics’ Inflation Calculator, this is equivalent to \$2.85 in 2011 (see [http://www.bls.gov/data/inflation\\_calculator.htm](http://www.bls.gov/data/inflation_calculator.htm)). Because different components of the calculation have changed at different rates – life insurance is generally less expensive, while medical care is more expensive – an inflation adjustment is necessarily an approximation.

<sup>9</sup> Ibid.

<sup>10</sup> Kip Viscusi, *Smoke Filled Rooms* (Chicago, IL: University of Chicago Press, 2002), pages 63–69.

– that “at the very least, taxes [placed on cigarettes] should offset external costs imposed by tobacco use,” most Americans live in jurisdictions where taxes are already high enough. Three of the four highest-population states (New York, Texas, and Florida) have total taxes of at least \$2.85 per pack in almost all cases when sales and local taxes are included. (In the most populous state, California, state tobacco and sales taxes and local taxes imposed in most large jurisdictions bring the amount to slightly under \$2.85). Only seven states – Virginia the largest among them – have total cigarette taxes significantly less than this.<sup>11</sup>

Tax increases above current levels are not justified by appealing to the costs that smokers impose on nonsmokers. Smokers already pay more than this measure could justify.

It is worth asking whether all of the social costs of smoking ought to be paid for by smokers at the moment they purchase tobacco products. Few theories of tax policy suggest everyone should “pay their own way” for every particular action they take. Indeed, the idea of progressive taxation is based on quite the opposite assumption, that the well-off

should pay more taxes and a larger percentage of their income in taxes than people with lower incomes, necessarily implying that people with lower incomes should pay less than the full cost of their decisions.

Smokers, like everyone else, pay a wide variety of taxes, and though these payments are not linked to the act of using tobacco, the revenues are combined with other funds to pay for health care, fire prevention, and other goods and services whose cost is often assigned to the act of smoking. In many localities, in other words, the social costs of smoking (even by high estimates of them) are already paid for when smokers purchase tobacco products.

Tax increases above current levels may still be a means of modifying behavior or raising revenue, but they are not justified by appealing to the costs that smokers impose on nonsmokers. Smokers already pay more than this measure could justify.

## **2. Tobacco taxes place a much larger burden on lower-income people than on the well-off.**

Because of the way they are assessed – mostly on a per-pack basis – tobacco taxes are not even vaguely income-related. Two people who smoke the same number of cigarettes pay almost exactly the same amount in taxes for the product even if one is smoking an expensive imported brand and the other is smoking the cheapest “sub-generic” brand.<sup>12</sup>

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<sup>11</sup> NCSL, *supra* note 6. The jurisdictions are Georgia, Louisiana, Mississippi, Missouri, North Carolina, North Dakota, and Virginia.

<sup>12</sup> In states that assess sales taxes on cigarettes, as almost all do, those smoking expensive brands will pay slightly more.

On average, people making less than \$10,000 a year pay more in absolute terms in cigarette taxes than do middle-income smokers.<sup>13</sup> As higher-income people have stopped smoking in large numbers, the cigarette tax burden has become more regressive over time.<sup>14</sup> Most smokers come from the bottom of the wealth distribution in America.

A comprehensive 75,000-person poll conducted by the Gallup Organization in 2009 revealed that a significant majority of smokers (62 percent) earn less than \$36,000 a year, while only 13 percent of smokers have incomes over \$90,000.<sup>15</sup> Based on Census Bureau data, it's possible to conclude that smokers are more than twice as likely to have incomes in the lower range than the population as a whole.<sup>16</sup>

As higher-income people have stopped smoking in large numbers, the cigarette tax burden has become more regressive over time. Most smokers come from the bottom of the wealth distribution in America.

Even a World Health Organization report that strongly advocates for higher tobacco taxes (even on poorer individuals and in poorer countries) concedes the underlying point: “Existing tobacco taxes,” WHO’s researchers write, “do consume a higher share of the poor consumers’ income than of rich consumers.”<sup>17</sup>

One possible way to reduce the regressivity of tobacco taxes is to earmark their revenues for programs directed toward the poor – a course of action that one U.S. Surgeon General’s report endorsed.<sup>18</sup> Taxing more expensive brands at higher rates wouldn’t necessarily work, because there’s little data to indicate that poorer people always smoke less-expensive brands.

In reality, money from tobacco taxes today isn’t directed toward helping smokers or the poor in general. A report in the *American Journal of Public Health* noted state governments getting new tobacco taxes are “using the funds for nearly every purpose but tobacco control, let alone

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<sup>13</sup> Viscusi, *supra* note 2, page 63.

<sup>14</sup> William M. Evans, et al., “Tobacco Taxes and Public Policy to Discourage Smoking,” National Bureau of Economic Research, January 1999, <http://www.nber.org/chapters/c10920.pdf>.

<sup>15</sup> Gallup Organization, “Cigarette Tax Will Affect Low-Income Americans Most,” Gallup Health and Well-Being Index, <http://www.gallup.com/poll/117214/cigarette-tax-affect-low-income-americans.aspx34>.

<sup>16</sup> See Bureau of the Census, *Income, Poverty and Health Insurance Coverage in the United States, 2003*, <http://www.census.gov/prod/2004pubs/p60-226.pdf>, pages 62-63.

<sup>17</sup> David Annette, et al., *Building Blocks for Tobacco Control: A Handbook* (Geneva, Switzerland: World Health Organization), 2004, page 205.

<sup>18</sup> M. Jocelyn Elders, *Preventing Tobacco Use Among Young People: A Report of the Surgeon General*, United States Department of Health and Human Services, 1994, page 274.

cessation services for impoverished smokers.”<sup>19</sup>

It is highly unlikely a program could be developed to direct revenue from taxes on tobacco products to means-tested programs that would not then simply allow governments to reduce revenues from other sources that would have supported those programs. There is also no likelihood that the amount of money collected in tobacco taxes – presumably, the amount necessary to offset the social costs of smoking – would bear any resemblance to the cost of smoking cessation programs or for services directed only to the poor.

Greatly increased funding of smoking cessation programs would probably be wasteful, viewed by the general public as paternalistic and annoying, and viewed by the poor as demeaning. Whereas wealthy people who chose to smoke would pay a small extra portion of their income for the right, poorer people would be pressured to quit at all times, even if they found occasional smoking enjoyable and chose to smoke with a full awareness of its health risks.

It seems better to allow poorer individuals to keep their own money than to confiscate it through cigarette taxes and then let government bureaucracies cycle some of it back to them.

### **3. Tobacco tax increases are not necessarily the best way to discourage smoking.**

A growing body of evidence indicates taxes imposed directly on cigarettes are not always the best way to reduce smoking. Even researchers and advocacy groups that have tended to support higher tobacco taxes typically hedge their bets about this because the research doesn’t really support the notion that tax increases in isolation are a way to reduce smoking.

Tobacco tax increases are not necessarily more effective in reducing smoking than increased investment in other public and private efforts.

In a publication advocating increased tobacco taxes, the Centers for Disease Control and Prevention states, “increasing cigarette taxes is one of the most effective tobacco control policies”<sup>20</sup> Certainly, higher tobacco taxes – all other things being equal – should reduce smoking somewhat because raising the price

of almost anything tends to reduce consumption. But such impacts are not equal and may not be the best way to affect the use of tobacco products. Two conclusions from academic research stand out: not all increases in tobacco taxes impact all groups of smokers, and tobacco tax increases are not necessarily more effective in reducing smoking than increased investment in other public and private efforts.

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<sup>19</sup> David Ahrens, “Tobacco Taxes and Cigarette Consumption in Low Income Populations,” *American Journal of Public Health*, Vol. 99, No. 1, page 6.

<sup>20</sup> Centers for Disease Control and Prevention, “State Cigarette Excise Taxes – United States, 2009,” *Mortality and Morbidity Weekly Report*, Vol. 59, No. 13, April 9, 2010.

The effects of tobacco taxes on smoking behavior appear to vary based on the group of smokers in question.

For example, even though anti-smoking advocacy groups such as the Campaign for Tobacco Free Kids campaign for higher taxes to reduce underage smoking, young smokers rarely buy their own cigarettes, since it is illegal and the law is increasingly enforced vigilantly, and so a tax on cigarettes is unlikely to affect their decision to smoke. Why impose a tax that is overwhelmingly paid by adults, who presumably made an informed decision to smoke and bear the risks, in the name of “protecting” kids? Apparently, because it is good rhetoric, even if it is poor public policy.

One recent, unusually comprehensive study on the consequences of cigarette tax increases finds only heavy smokers appear to have reduced consumption in response to a relatively large cigarette tax increase.<sup>21</sup>

Although the study, conducted in Mexico, concludes the taxes decreased consumption (not a surprising finding), it also shows such decreases are not uniform and the taxes do not have any effect on the significant portion of smokers – just about half in the study – who smoke five or fewer cigarettes a day.

Tax-only strategies appear to be much less effective per dollar spent than other strategies in discouraging smoking.

Without additional research, it’s difficult to know exactly what conclusions to draw from this. It is possible, for example, that the taxes may discourage less-frequent smokers from smoking more than they already do. But it seems to lay to rest any notion that taxes will always and everywhere discourage smoking in every group.

Likewise, tax-only strategies appear to be much less effective per dollar spent than other strategies in discouraging smoking. One study – often cited, ironically as proof that tobacco taxes “work” – actually provides significant evidence that taxes are a very inefficient way to reduce smoking.<sup>22</sup>

California, in the late 1980s and early 1990s, via a voter proposition, increased tobacco taxes by around \$700 million and spent slightly less than \$20 million on an advertising campaign to discourage smoking. A University of California Berkeley research team concluded the advertising campaign reduced cigarette sales by 232 million packs per year, thus costing about 11 cents per pack of cigarettes not consumed. The tobacco tax increase reduced consumption by

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<sup>21</sup> Belen Saenz-de-Miera, et al., “Self-reported Price of Cigarettes, Consumption and Compensatory Behaviours in a Cohort of Mexican Smokers Before and After a Cigarette Tax Increase,” *Tobacco Control* 2010, Vol. 19, pages 481–487. The study also uncovers data indicating some heavier smokers did quit. However, the study’s methodology does not make it clear the tax increase resulted in any quitting that would not have happened without the tax increase.

<sup>22</sup> Teh-wei Hu, et al., “Reducing Cigarette Consumption in California: Tobacco Taxes vs. an Anti-Smoking Media Campaign,” *American Journal of Public Health*, Vol. 85, September 1995, page 9.

about 819 million packs per year, almost 85 cents per pack of cigarettes not consumed.

Although it is impossible to draw firm conclusions from a report conducted at a single point in time that tested only two interventions (for example, nicotine patches and smoking bans weren't investigated), the study seems to indicate that localities intent on using public funds to discourage smoking get the best return on investment by running advertising campaigns instead of raising tobacco taxes.

Higher taxes on tobacco products won't discourage underage smoking and are a less-efficient and less-effective way to reduce smoking than advertising campaigns and bans on smoking in public areas.

Another major study on the topic – a 2002 report on smoking in New York City after a significant tax increase there – proves similarly ambiguous. The report makes it clear the tax increase was only one element of a “five-component tobacco control strategy” that included distribution of free nicotine patches, smoking bans in almost all indoor places except private homes, and an extensive

educational campaign designed to discourage smoking.<sup>23</sup> Although the study, conducted by a team from the New York City Department of Health and Mental Hygiene with the assistance of a computer expert from a local business college, does show that smoking declined in the city as a result of the campaign, it also appears to show tax increases are an ineffective public health measure.

The New York study found higher tobacco taxes seem to have been slightly more effective in encouraging people to quit than a workplace smoking ban, but both measures had almost exactly the same impact on getting individuals to reduce their smoking.<sup>24</sup> Given that the workplace smoking ban had no quantifiable direct cost while the higher taxes reduced individual disposable income by millions of dollars, it appears that even under a “public health only” strategy that discards rights of individual liberty, private property, and autonomy (all of which a workplace smoking ban violates), tax increases may not always be desirable.

The study also confirms that not all interventions will work for all people. During the study period, smoking actually increased among individuals earning between \$50,000 and \$75,000.<sup>25</sup> (Smoking fell in all other identifiable groups.)

Research suggests, then, that higher taxes on tobacco products won't discourage underage smoking and are a less-efficient and less-effective way to reduce smoking than advertising campaigns and bans on smoking in public areas.

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<sup>23</sup> Thomas H. Frieden, et al., “Adult Tobacco Use Levels After Intensive Tobacco Control Measures: New York City, 2002–2003,” *American Journal of Public Health*, Vol. 95, No. 6, June 2005, page 1016.

<sup>24</sup> *Ibid.*, page 1020.

<sup>25</sup> *Ibid.*, page 1019.



#### 4. Black markets for cigarettes can develop as taxes rise.

Most cigarettes in the United States very likely will continue to be bought in an entirely legal, taxed manner. But the U.S. Bureau of Alcohol, Tobacco, Firearms, and Explosives (BATF) makes one thing clear: “There is no doubt that there’s a direct relationship between the increase in a state’s tax and an increase in illegal trafficking.”<sup>26</sup>

Although not every increase in cigarette taxes will necessarily encourage a noticeable amount of crime or smuggling, there’s a near-certainty that very significant increases in cigarette taxes will, and even small increases encourage tax avoidance of various kinds.<sup>27</sup> Even studies that find rather small actual consequences of tobacco smuggling do not rule out the possibility that crime may still increase as a result of bootlegging.<sup>28</sup> States often lose large amounts of tax revenue as a result: In New York City alone, an investigation by a major newspaper found the city was losing at least \$20 million a month in revenue in late 2010.<sup>29</sup>

A major study conducted in Canada draws a causal relationship between taxes and a cigarette black market. “What is clear is that while several factors have facilitated the exploding contraband tobacco trade in Canada,” the authors write, “increases in tobacco excise taxes were the spark that ignited the explosion.”<sup>30</sup>

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*U.S. Bureau of Alcohol, Tobacco,  
Firearms, and Explosives*

Even groups that avidly support higher cigarette taxes freely acknowledge that, in some cases, certain designs of cigarette taxes can result in a significant increase in smuggling and violent crime.<sup>31</sup> Some measures, such as requiring tax stamps, can mitigate the consequences of smuggling at certain levels, but almost no measure can work forever or at every price level. A

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<sup>26</sup> Government Accountability Office, “Cigarette Smuggling: Federal Law Enforcement Efforts and Seizures Increasing,” May 2004, <http://www.gao.gov/new.items/d04641.pdf>.

<sup>27</sup> For a comprehensive report on how cigarette smuggling drives crime, see Patrick Fleenor, “Cigarette Taxes, Black Markets, and Crime Lessons from New York’s 50-Year Losing Battle,” *Policy Analysis*, Cato Institute, February 6, 2003, <http://www.cato.org/pubs/pas/pa468.pdf>.

<sup>28</sup> See, e.g., Hy Sung, et al., “Cigarette taxation and demand: an empirical model,” *Contemporary Economic Policy*, Vol. 7, 1994, pages 91–100.

<sup>29</sup> Douglas Montero, et al., “Black Market Cigarettes Costing NY \$20 Million a Month,” November 26, 2010, [http://www.nypost.com/p/news/local/burned\\_by\\_bootleg\\_smokes\\_lqtVTHYSTsWW6KcabOliRO](http://www.nypost.com/p/news/local/burned_by_bootleg_smokes_lqtVTHYSTsWW6KcabOliRO).

<sup>30</sup> Nachum Gabler and Diane Katz, “Contraband Tobacco in Canada: Tax Policies and Black Market Incentives,” The Fraser Institute, July 2010, [http://www.fraserinstitute.org/uploadedFiles/fraser-ca/Content/research-news/research/publications/contraband-tobacco-in-canada\(1\).pdf](http://www.fraserinstitute.org/uploadedFiles/fraser-ca/Content/research-news/research/publications/contraband-tobacco-in-canada(1).pdf).

<sup>31</sup> Ann Boonn, “The Michigan Story: Cigarette Tax Increases, New Revenues, and the Value of Tax,” Campaign for Tobacco Free Kids, <http://www.tobaccofreekids.org/research/factsheets/pdf/0279.pdf>.

researcher at the Midland, Michigan-based Mackinac Center for Public Policy, citing a case where smuggled cigarettes benefited the terrorist organization Hezbollah, put it particularly well: “The taxation of any commodity can reach a point where people begin to modify their behavior. And once that line is crossed, the sky’s the limit, including terrorism.”<sup>32</sup>

As taxes rise, many smokers will decide to look for ways to purchase untaxed or lower-taxes cigarettes.

This does not mean a crime wave will necessarily arise or has necessarily followed every increase in cigarette taxes. But it does mean that at some point, as taxes rise, many smokers will decide to look for ways to purchase untaxed or lower-taxes cigarettes.

Since many of those avoiding taxes will be involved in other criminal activity – or even use the proceeds to finance criminal activity – the negative externalities of certain cigarette tax increases may be quite significant.<sup>33</sup>

## **5. Tobacco taxes often produce less revenue than expected and sometimes even reduce revenue overall.**

In part because they result in the creation of black markets, tobacco tax hikes often produce disappointing revenues. Particularly in geographically small states where many people live on the border of states with lower cigarette taxes, raising taxes on tobacco has actually reduced revenues. This happened in New Jersey in 2007, for example.<sup>34</sup> Thus, the claim made by one anti-smoking group, that “raising state cigarette taxes always increases state revenue,” is flatly untrue.<sup>35</sup>

Much more often, tobacco tax increases produce less revenue than originally projected: During one period, only about one-third of tobacco tax increases actually produced the expected revenue.<sup>36</sup> The factors affecting tobacco tax collections, however, do appear to vary quite a bit based on the characteristics of the state. Geographically large states whose major population

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<sup>32</sup> Michael Lafaive, “The Unintended Consequences of Cigarette Tax Hikes,” Mackinac Center for Public Policy, December 13, 2002, <http://www.mackinac.org/4927>.

<sup>33</sup> Fleenor, *supra* note 27.

<sup>34</sup> See, e.g., William Orzechowski and Robert Walker, *The Tax Burden on Tobacco, 2009*, Vol. 43. For a media account, see Associated Press. “With Fewer Smokers, States See Less Tax Revenue,” via MSNBC.com, [http://www.msnbc.msn.com/id/17170991/ns/business-us\\_business/t/fewer-smokers-states-see-less-tax-revenue/](http://www.msnbc.msn.com/id/17170991/ns/business-us_business/t/fewer-smokers-states-see-less-tax-revenue/).

<sup>35</sup> Campaign for Tobacco Free Kids, “Raising State Cigarette Taxes Always Increases State Revenue (And Always Reduces Smoking),” <http://www.tobaccofreekids.org/research/factsheets/pdf/0098.pdf>.

<sup>36</sup> John Nothdurft, “Top Ten Reasons Not to Raise Tobacco Taxes,” The Heartland Institute, 2009, <http://www.budgetandtax-news.org/article/25987>.

centers are far from other state borders can, in many cases, meet revenue estimates.<sup>37</sup> On the other hand, the single most important economic response to cigarette tax increases appears to be simple: avoidance. One particularly rigorous study concludes almost 10 percent of all cigarette sales are driven, at least in part, by tax avoidance.<sup>38</sup>

For those focusing on public health goals alone, this may be an acceptable tradeoff, but states looking to increase overall revenue by means of a tobacco tax increase will often end up disappointed, to say the least.

States looking to increase overall revenue by means of a tobacco tax increase will often end up disappointed, to say the least.

Tobacco taxes present a wide variety of other problems from a revenue-collection standpoint: They rarely are used to cut other taxes (even when that is promised), tend to increase along with all other taxes, and, because they are an unreliable source of revenue, tend to encourage other tax hikes in

the future.<sup>39</sup> In addition to their other faults, tobacco taxes don't accomplish revenue-raising goals very well.

## Conclusion

Tobacco taxes may be offered with good intentions, but they do not perform as promised.

Current taxes in many locations in the United States exceed by a wide margin the middle-ground consensus estimates of the social costs of smoking. Raising them even higher can be seen only as a revenue-raising measure rather than any sort of "user fee" to cover the social costs of smoking.

Increases in cigarette taxes hit the poor most heavily, while the programs funded by these taxes do not provide a direct benefit to those individuals who pay the taxes. It would be difficult or even impossible to design a scheme in which poor smokers would be the focus of benefits from the taxes they pay to support their habits.

Even if one places the public health goal of smoking reduction above all other considerations, raising taxes is not necessarily the most effective way to achieve it. Educational campaigns and bans on smoking in public places appear to be much more efficient.

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<sup>37</sup> Sherry Emery, et al., "Was There Significant Tax Evasion After the 1999 50 Cent Per Pack Cigarette Tax Increase in California?" *Tobacco Control*, Vol. 11, pages 130–134.

<sup>38</sup> Mark Stehr. "Cigarette tax avoidance and evasion," *Journal of Health Economics* Volume 24, Issue 2, March 2005, pages 277-297.

<sup>39</sup> Kristina Rasmussen, "Debunking the 'Tax Thee, But Not Me' Myth," *National Taxpayers Union*, March 20, 2008, <http://www.ntu.org/news-and-issues/taxes/excise-tax/debunking-the-tax-thee-myth-for-tobacco-taxes.html>.

Past increases in cigarette taxes have led to tax avoidance and the creation of black markets with their associated problems of crime, violence, and disrespect for the law. Although not every increase in cigarette taxes is going to cause a massive black market to develop, at some point a significant one will develop, and potentially millions of smokers will find themselves on the wrong side of the law.

The bulk of the academic research on tobacco control argues against proposals to increase cigarette taxes.

Finally, partly as a result of these black markets, higher tobacco taxes are an unreliable way to raise revenue. Forecasts of revenue are often off the mark as smokers find ways to get tobacco products from untaxed sources.

The bulk of the academic research on tobacco control argues against proposals to increase cigarette taxes. Public health advocates should look to other public policy tools, and elected officials searching for more revenue should look to other goods and services to tax or ways to reduce spending.

## About the Author

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