

House Study Bill 694 – Evidence Brief on Cigarette and Nicotine Vapor Taxes

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In summary, the new tax proposed in HB 694 would reduce smoking by 2-3% in the short-term and drop Iowa's smoking rate below 10% over a decade. While a larger tax might reduce smoking by more, the regressivity and loss of revenue (-\$ 20,000,000) suggest the HSB 694 rate increase may balance public health and society impacts. The vapor tax section would reduce vapor use, as intended, but unintentionally increase smoking rates. Avoiding tax "parity" may reduce unintended substitution toward cigarettes and reduce our cancer burden. Based on the available evidence, this HSB 694 tax would reduce cigarette smoking and vapor use, with minimal (but not zero) offset in cigarette smoking from the vapor tax specifically. Targeted revenue allocations and exemptions for cessation may strengthen long-term smoking declines.

Evidence on Cigarette Taxes

The Good – Cigarette excise taxes are one of the most [effective policy tools](#) for reducing cigarette smoking. The consensus of evidence suggests a 10% tax increase reduces smoking by 2-6%. [My research](#) shows a change from a 10% tax increase results in a 4% decline in Iowa. Assuming an average pack price of \$8-10, the new tax would increase price by 6.5-8.1%, resulting a 2-3% decline in smoking. In the long term, we'd expect this decline to double. This new tax would drop Iowa's adult smoking rate from 14% to 11-12% immediately and below 10% after a decade. This would help prevent Iowa from becoming the [leading](#) smoking state by 2035. This would [reduce lung cancer](#) and [other cancer in Iowa](#).

The Bad – Cigarette taxes are [regressive](#). Higher income people do not notice a tax increase, whereas lower income people pay a larger share of their income on cigarettes. [Research](#) shows a cigarette tax increases smoking expenditures among people who keep smoking and those people spend LESS on other items.

Cigarette taxes, like most excise taxes, increase the demand for illicit (black) markets. Cigarette taxes [increase illicit market in the US in the form of cross-state market activity](#). The National Academy of Science determined that the percentage of the total market represented by illicit sales in the United States is between 8.5 percent and 21 percent, comprising in lost revenue for Iowa. Any tax increases the likelihood of cross-state cigarette market activity, especially in counties bordering Missouri and Nebraska. [Iowa currently loses](#) \$10,000,000 in tax revenue. This new tax would result in \$12 million dollars in lost revenue. Note, a higher \$1.50 tax increase would result in \$20,000,000 in lost revenue.

Revenue Allocation – Iowa's response to prior cigarette tax increases was below many other states. Any new tax could be more impactful on both smoking behavior and cancer burden if that tax revenue was spent on smoking cessation. If Iowans were as responsive as the top states, this HSB 694 tax could reduce smoking 5% now and 10% in the long-term.

Evidence on Nicotine Vapor Taxes

The Good – Vapor products are substitutes for combustible cigarettes. Most of the attention on vapor taxes is on youth. Adding a 15% tax on vapor products [would reduce youth vapor](#) use by 1.9% and 2.5% [in young adults](#).

The Bad – People change behavior when faced with higher prices. This new tax on vapor would increase cigarette smoking [in youth](#) and [young adults](#). Estimates show that, on its own, the HSB 649 vapor tax [risks adding 75,000 more cigarette smokers](#). My [research](#) shows that this vapor tax would increase smoking rates by 1.9% in older adults. However, approaching "parity" between cigarette and e-cigarettes with a larger tax increase of \$1.50 would result in 12,000 more older adults smoking cigarettes. This old [group faces the greatest harm](#) from smoking and will benefit most from quitting.

There is a lot of debate about vapor. The claims of a 'gateway effect' are not supported by longitudinal evidence. In fact, daily cigarette smoking is [declining in young adults](#). Daily [vapor use is low and declining in youth](#). Vapor products have been recently shown to be [successful smoking cessation tools](#). Taxing these products adds a barrier to smoking cessation.

[Vapor is not risk-free, but an expert review concludes that vapor products are 95% safer than cigarettes.](#)

If you, your staff, or colleagues have follow up questions about this evidence please contact me at jsemprini@dmu.edu.

This brief summarizes empirical evidence and projected impacts. This brief is not intended to advocate for or against any existing or potential legislation.