

Misleading Arguments Against Tobacco Tax Increases The Myths About Cross Border Sales & Declining Revenue Source

Increasing state tobacco taxes is good health policy that saves lives and money. Tobacco tax increases help people quit, keep kids from starting to use tobacco, and increase state revenues.

Talking Points

- Every state that has increased its tobacco excise tax has seen reductions in tobacco use and increased tax revenue – despite the lost sales from related smoking declines and despite any revenue losses to *smuggling* or other *tax avoidance*.
- Despite significant increases in some state tobacco excise taxes combined with price increases made by the industry itself, organized *smuggling* with wholesaler or retailer participation remains a relatively minor problem.
- A recent study found that that organized cigarette *smuggling* and *cross-border* cigarette purchases account for no more than 5% of all cigarette sales.
- Studies indicate that informal *cross-border* purchases by consumers and small-time *smuggling* account for only about one percent of U.S. cigarette purchases.
- It appears that many smokers who initially try to avoid large state cigarette tax increases soon use up their stockpile of cigarettes purchased right before the increase or tire of driving across state lines, adjust to the change and return to the convenience of in-state purchases.
- The best evidence that consumers are not engaging in *cross border* sales is that about two-thirds of all cigarettes sold in the U.S. are sold by the pack even though smokers save a substantial amount by purchasing cartons. Smokers who don't take advantage of cost savings by purchasing carton cigarettes from local retailers are unlikely to drive to another state to make those purchases.
- Most smokers purchase cigarettes from the most convenient and expensive sources such as convenience stores, gas stations, liquor stores, drug stores and supermarkets even when cigarette taxes are increased.
- The industry hurts *low-income* families; the harms from smoking are *regressive*. Due to targeted marketing by the tobacco industry, low-income families bear a disproportionate burden of death and disease caused by tobacco.
- *Low-income* populations are four times more likely to quit smoking in response to cigarette price increases; hence, the health benefits from a tobacco tax increase are substantially higher among *low-income* families.
- Even with \$1 increase, the price per pack would still be far less than what the CDC estimates is Iowa's smoking-caused health care costs of \$8.04 per pack.

Sources: Campaign for Tobacco Free Kids. Toll of Tobacco in Iowa; Iowa Department of Public Health. Iowa Youth Tobacco Survey 2004; Iowa Department of Public Health. Iowa 2004 Adult Tobacco Survey; Campaign for Tobacco-Free Kids. Iowa Cigarette Tax Increases, Estimated New Revenues, Cost Savings and Other Benefits and Effects. October 9, 2006.



Action:

To increase Iowa's excise tax on cigarettes by \$1.00 per pack and increase the tax on other tobacco products by a percent consistent with the increase of the tax on cigarettes.

Goals:

- Improve the health of Iowans by decreasing the number of tobacco users and the incidence of tobacco related death and disease;
- Reduce tobacco use by Iowa's youth and strengthen the state tobacco use prevention and control program;
- To create additional revenue to support health care programs and services.

Current Situation:

- Current State Cigarette Tax: **36 cents per pack** (42nd among all states)
- Last Iowa Cigarette Tax Increase: **06/01/91**
- Smoking-caused costs in state per taxed pack sold: **\$8.04**
- Average retail price per pack: **\$3.54**
- Total state Medicaid program smoking costs each year: **\$301 million**
- State cigarette tax revenue each year: **\$86.9 million** (2004)
- High school students in Iowa who smoke: **20%**
- Adults in Iowa who smoke: **20%**

Projected Benefits from a \$1 Cigarette Tax Increase in Iowa:

- New state cigarette tax revenues each year: **\$150.1 million**
- Pack sales decline in state: **- 71.7 million**
- Percent decrease in youth smoking: **19%**
- Increase in total number of kids alive today who will not become smokers: **38,600**
- Number of current adult smokers in the state who would quit: **20,200**
- Number of smoking affected births avoided over next five years: **6,300**
- Number of current adult smokers saved from smoking-caused death: **5,300**
- Number of kids alive today saved from premature smoking-caused death: **12,300**
- 5-year healthcare savings from fewer smoking-affected pregnancies & births: **\$10.8 million**
- 5-year healthcare savings from fewer smoking-caused heart attacks & strokes: **\$9 million**
- Long-term healthcare savings in state from adult & youth smoking declines: **\$867.4 million**

Sources: Campaign for Tobacco Free Kids. Toll of Tobacco in Iowa; Iowa Department of Public Health. Iowa Youth Tobacco Survey 2004; Iowa Department of Public Health. Iowa 2004 Adult Tobacco Survey; Campaign for Tobacco-Free Kids. Iowa Cigarette Tax Increases, Estimated New Revenues, Cost Savings and Other Benefits and Effects. October 9, 2006.

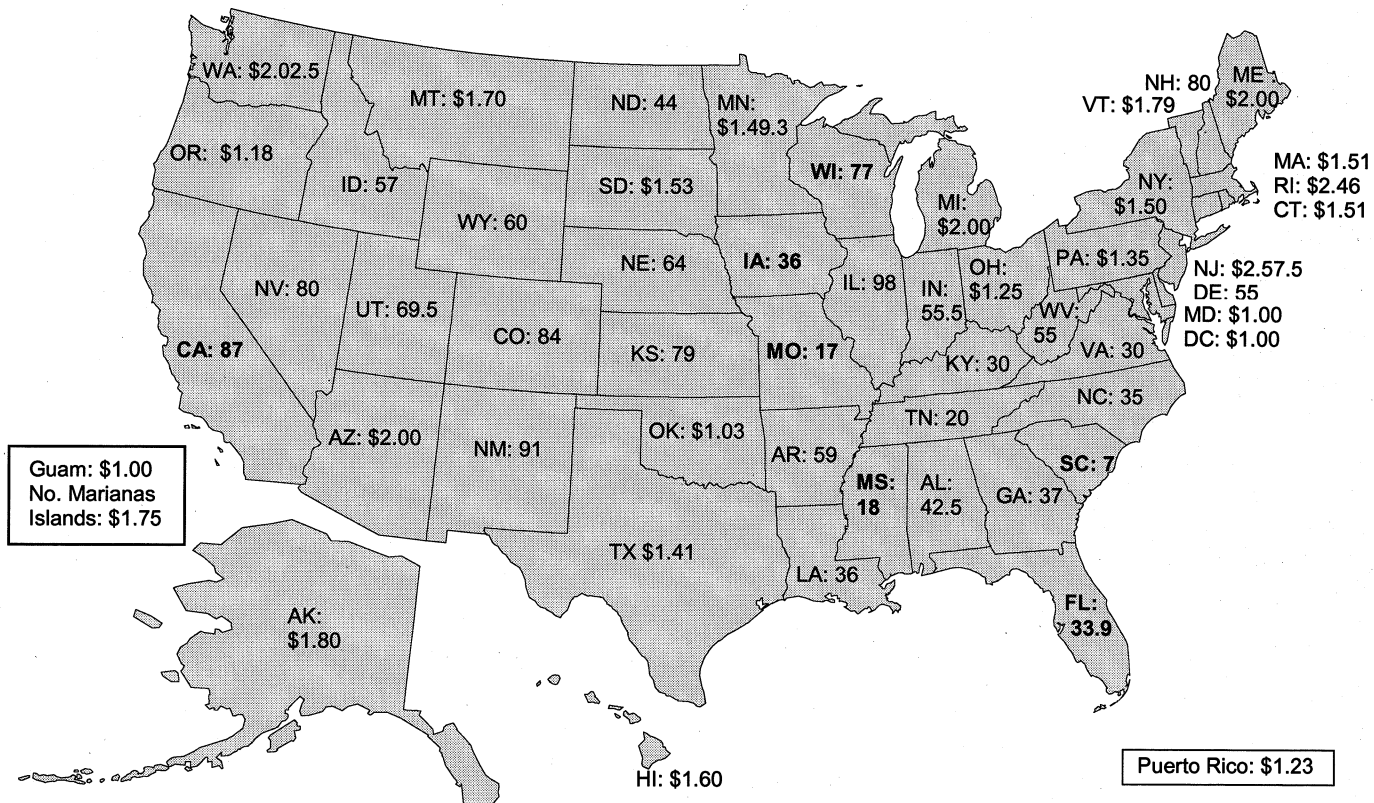


MAP OF STATE CIGARETTE TAX RATES

Average State Cigarette Tax: \$1.00 per Pack

Average Cigarette Tax in Major Tobacco States: 26.5 cents per Pack

Average Cigarette Tax in Non-Tobacco States: \$1.10 per Pack



Map shows state cigarette tax rates in effect now or scheduled to be implemented soon. States that have not increased their cigarette tax rate since 2001 or earlier are marked in bold. The State averages, listed above, do not include Puerto Rico (with a population larger than those in 20 different states) or any of the U.S. territories (such as Guam). Including Puerto Rico raises the state average to \$1.00.6 cents per pack and the non-tobacco state average to \$1.10.3. The major tobacco states with extensive tobacco farming and, often, cigarette manufacturing are NC, KY, VA, SC, TN, & GA. Federal cigarette tax is 39¢. Not shown are the special taxes or fees some states place on cigarettes made by Non-Participating Manufacturers (NPMs), the companies that have not joined the Master Settlement Agreement (MSA) between the states and the major cigarette companies. Some local governments also have their own cigarette taxes, such as Chicago (68¢), Cook County, IL (\$2.00), New York City (\$1.50), and Anchorage, AK (\$1.30). The U.S. Centers for Disease Control & Prevention estimates that smoking-caused health costs and productivity losses total \$10.28 per pack sold.

Campaign for Tobacco-Free Kids, December 7, 2006 / Eric Lindblom

For more information on state cigarette taxes and the benefits from increasing them, see:

- <http://tobaccofreekids.org/research/factsheets/index.php?CategoryID=18>
- <http://tobaccofreekids.org/reports/prices>



\$1 Per Pack Increase in Iowa's Cigarette Tax Will Reduce Smoking and Improve the Health of Iowans

TOBACCO INDUSTRY RESPONSE:

Increasing the cigarette tax will encourage **cross border sales**.

THE FACTS:

This is an argument perpetuated by the tobacco industry. Increasing Iowa's cigarette tax by \$1 per pack is about **improving the health of Iowans** by reducing smoking rates and dedicating the revenue to health including helping smokers quit.

Every single state that has significantly raised its cigarette tax rate has enjoyed substantial increases to state revenues, despite the fact that **cigarette tax increases reduce state smoking levels** and despite any related increases in cigarette smuggling or cigarette tax avoidance.

The smuggling/tax avoidance problem is a lot smaller than the cigarette companies and their allies say, especially compared to the additional new revenues, public health benefits, and smoking-caused cost reductions from state cigarette tax increases.

Border crossing effects appear very small, with tax evasion through border crossing accounting for an estimated 0.2% of all sales in 1985 and only 0.7% in 2001.¹

It also appears that many smokers who initially try to avoid large state cigarette tax increases soon use up their stockpile of cigarettes purchased right before the increase or tire of driving across state border or going to the internet to buy cheaper cigarettes and return to the convenience of normal full-tax purchases in their own state.²

Increasing Iowa's cigarette tax by \$1 per pack is good public health policy.

¹ Stehr, M, "Cigarette Tax Avoidance and Evasion," *Journal of Health Economics* 24(2): 277-97, March 2005

² Emery, S et al. "Was There Significant Tax Evasion After the 1999 50 Cent Per Pack Cigarette Tax Increase in California?" *Tobacco Control*. June 2002. Spencer, M., "Incensed Smokers Stock Up Before Tax Rises," *Hartford Courant*, April 3, 2002



Benefits From Raising Iowa's Cigarette Tax by 65 cents vs. \$1.00

A \$1.00 tax saves more lives and more money. Compared to a 65-cent tax increase, a \$1.00 increase will result in:

- 13,500 fewer future youth smokers
- 7,100 fewer adult smokers
- 4,300 more youth smoking deaths avoided
- 1,900 more adult smoking deaths avoided
- \$303.7 million more in long-term health care savings
- \$37.6 million more in additional cigarette tax revenue annually

Tax increase per pack in Iowa	65 cents	vs. \$1.00
Additional tax revenue per year	\$112.5 million	\$150.1 million
Fewer packs sold per year	-47.9	-71.7
Youth smoker decline	-12.2%	-18.8%
Fewer future youth smokers	25,100	38,600
Adult smoker decline	-\$2.8%	-4.3%
Fewer adult smokers	13,100	20,200
Youth smoking deaths avoided	8,000	12,300
Adult smoking deaths avoided	3,400	5,300
5-year smoking-harmed births avoided	4,100	6,300
5-year heart and stroke savings	\$5.9 million	\$9 million
5-year smoking-births savings	\$7.0 million	\$10.8 million
Overall long-term health savings	\$563.7 million	\$867.4 million

Source: Campaign for Tobacco Free Kids. Campaign for Tobacco-Free Kids. Iowa Cigarette Tax Increases, Estimated New Revenues, Cost Savings and Other Benefits and Effects. October 9, 2006



Tobacco Excise Tax

- **Higher Tobacco Prices Reduce Smoking Rates.** Economic studies conclude that every 10 percent increase in the price of cigarettes will reduce the total amount of adult smoking by 3 to 5 percent. However, the effects of an increase in cigarette prices are not limited to reductions in cigarette consumption by continuing smokers, but also significant reductions in smoking prevalence, reflecting increased smoking cessation among smokers and reduced smoking initiation among young people.ⁱ
- **Youth Are Most Responsive To Increases In Tobacco Prices.** Nearly 90 percent of smokers start at or before age 18ⁱⁱ and 20 percent of Iowa high school students are current smokers.ⁱⁱⁱ Increasing tobacco prices is one of the most effective ways to reduce youth smoking because youth have been shown to be two to three times more price sensitive in their demand for cigarettes than adults.^{iv}
- **Higher Tobacco Prices Reduce Youth Smoking.** Research indicates that a ten percent increase in the price of cigarettes reduces youth smoking prevalence by nearly 7 percent.^v A \$1.00 increase in Iowa's cigarette tax is estimated to reduce youth smoking by 18.8%.^{vi}
- **Increased Tobacco Prices Can Reduce Health Care Costs.** Iowa taxpayers spend \$301 million each year on Medicaid expenditures related to smoking-related illnesses and disease.^{vii} By lowering consumption, increased tobacco prices can help reduce these costs – a \$1.00 increase in Iowa's cigarette tax is estimated to save state residents \$867.4 million in long-term health care costs for sick smokers.^{viii}
- **Higher Tobacco Taxes Will Increase State Revenue.** Every state that has increased its tobacco tax in the past has enjoyed increased tax revenues, despite the reductions in smoking and tobacco sales. A \$1.00 increase in Iowa's cigarette tax is estimated to raise \$150.1 million in new state cigarette tax revenue each year.^{ix}
- **Tobacco Prices Must Be Increased Regularly To Impact Smoking Rates.** For the reductions in youth and adult smoking to be sustained over time, tobacco prices must be increased regularly to ensure that tobacco does not become more affordable due to inflation. Iowa's current cigarette tax of 36 cents per pack has not been increased since 1991 and is one of the lowest in the country (ranked 42nd).

ⁱ Advocacy Institute. Making the Case: State Tobacco Control Policy Briefing Papers. January 2000.

ⁱⁱ U.S. Department of Health and Human Services. Preventing Tobacco Use Among Young People: A Report of the Surgeon General. 1994.

ⁱⁱⁱ Iowa Department of Public Health. Iowa Youth Tobacco Survey. 2004.

^{iv} Chaloupka, F and Ross, H. "The Effect of Cigarette Prices on Youth Smoking." 2001.

^v Chaloupka, F and Grossman, M. "Price, Tobacco Control Policies and Youth Smoking." 1996.

^{vi} National Center For Tobacco-Free Kids. "Iowa Cigarette Tax Increases Estimated New Revenues, Cost Savings and Other Benefits and Effects" October 2006.

^{vii} National Center for Tobacco-Free Kids. "Toll of Tobacco in Iowa"

^{viii} National Center For Tobacco-Free Kids. "Iowa Cigarette Tax Increases Estimated New Revenues, Cost Savings and Other Benefits and Effects" October 2006.

^{ix} Ibid.

Please Read

Dear Legislators,

When I was 14, I lost my dad, Jack Lowry, to lung cancer. He was a lifelong smoker. I know that had he never smoked, he would be here today. He left my little sister, my mom and me behind. We miss him so much. These are some of my favorite pictures of my dad.

Please remember that the statistics of people who fall victim to tobacco-related disease are REAL people and one of them was my dad. By increasing the tobacco tax by \$1 (no less) you are taking action towards making sure nobody will have to lose a loved one to a tobacco-related disease again.

Thank you,

Mackenzie Lowry

Mackenzie Lowry



↑ My dad and I when I was little.

← My dad winning an award.

↓ My mom and dad on their honeymoon.





Smoke-Free Policies: Good For Business

The American Cancer Society supports local, state, and federal initiatives to stop public exposure to secondhand smoke. In 1993, the United States Environmental Protection Agency (EPA) released a landmark report, documenting the link between secondhand smoke, cancer and other chronic diseases. Since that time, many communities have decided to go smoke-free, protecting the health and lives of their residents.

Tobacco companies spent years trying to discredit the science regarding secondhand smoke...and failed. Now, they have turned their attention toward smoke-free initiatives. Hospitality business owners and workers are scared; they have been led to believe their livelihoods will end if their businesses go smoke-free. In an advertisement designed to educate the public about secondhand smoke, a leading tobacco company coined the slogan: "In any controversy, facts must matter."¹ Here are the facts:

FACT: Smoke-free Laws Do NOT Harm Restaurant Sales

- On March 30, 2003, New York City passed one of the strongest, and arguably, one of the most contentious smoke-free ordinances in the country. Fueled in part by the tobacco industry's propaganda machine, many restaurant owners believed their businesses would fail under the new ordinance. Yet, one year after the law went into effect, New York City bars and restaurants were booming. Data from the New York City Department of Finance show that tax receipts increased by 8.7 percent, or approximately \$1.4 million. Moreover, the New York State Department of Labor found no evidence that restaurants were closing as a result of the smoke-free law, and the rate of restaurant openings remained unchanged since the law went into effect.²
- Over the years, many studies have reached similar conclusions—that smoke-free restaurant ordinances do not harm restaurants' sales. These studies looked at smoke-free ordinances from different parts of the country during different economic cycles. They include communities in California, New York, Massachusetts, Texas, Arizona, Indiana, Wisconsin, Florida, Maryland, and Kentucky.^{3, 4, 5, 6, 7, 8, 9, 10, 11, 12, 13, 14, 15, 16, 17, 18, 19}
- For example, researchers compared aggregate restaurant receipts of 32 Massachusetts communities that adopted smoke-free restaurant and/or bar policies between January 1992 and December 1995 with the receipts of 203 communities that did not. The study found that smoke-free laws do not cause a significant change in communities' overall meal and alcohol revenues. Only seasonal changes and changes in a community's population were shown to have an effect on restaurant and bar revenues.²⁰
- Even in the tobacco growing state of North Carolina, where adult smoking rates are higher than the national average, researchers found that smoke-free restaurant ordinances did not impose economic hardships on restaurants or restaurant owners. Researchers compared the impact of smoke-free ordinances on restaurant sales in ten North Carolina counties—five with smoke-free ordinances and five without—and concluded that there were no differences in restaurant sales among the ten counties after the ordinances took effect.²¹
- Restaurant owners should also be interested to know that smoke-free ordinances may increase the resale value of their business. Smoke-free restaurants in California and Utah had a 16 percent median, or \$15,300, increase in sale price compared to restaurants in communities where smoking was permitted.²²
- More people are demanding smoke-free establishments. In a June 2003 Zogby International poll of registered voters, 63 percent of New Yorkers approved of the state Clean Indoor Air Act

(CIAA) in comparison to 35 percent who opposed the law. The poll showed greater support among New York City voters, with 69 percent overall support.²³ A 2004 Zagat New York City Survey showed that 23 percent of those surveyed said they would patronize smoke-free restaurants on a more regular basis, which is nearly six times higher than the four percent of survey participants who reported they would frequent restaurants less often than they did before the smoking ban.²⁴

- The Bowling Proprietors' Association of America (BPAA) found that more bowling centers were choosing to go smoke-free voluntarily. The BPAA also found that fewer bowlers smoke and the top reason why people choose not to bowl is because of the smoky environment. Moreover, non-smoking bowlers outspent smokers, making nonsmokers a lucrative customer base.²⁵

FACT: Smoke-free Laws Do NOT Harm Bars

- No independent study has proven that smoke-free laws negatively affect the bar industry. Research looking at communities in California, Massachusetts, Oregon, Texas, New York, Florida, Maryland, and Kentucky showed that smoke-free ordinances had no negative effect on bar sales.^{26,27, 28,29,30,31, 32, 33, 34} In fact bar businesses are not more sensitive to changes in smoking behavior than other hospitality businesses.³⁵
- Researchers compared California bar sales for the first five cities and two counties requiring all bars to be smoke-free with bar sales of comparable cities and counties in the state that did not. Smoke-free ordinances were found to have no effect on aggregate bar sales.³⁶
- Since New York City's smoke-free law went into effect in 2003, the New York State Liquor Authority has issued more liquor licenses to the city's restaurant and bar establishments. Compared to 2002, there were a reported 9,747 active liquor licenses in the city in 2003, a net gain of 234.³⁷
- One of the most recent studies to look at the relationship between smoke-free ordinances and bar revenues was conducted in El Paso, Texas by the Texas Department of Health (TDH) and the CDC. Researchers concluded that the sales of alcoholic beverages were not affected by the El Paso smoke-free ordinance.³⁸ Similar results were found in the state of Florida, where retail receipts for taverns, night clubs, bars which serve food, and liquor stores, remained unaffected by the state's smoke-free law. Of particular note, the number of people employed in Florida's drinking and eating establishments increased by 4.53 percent after the smoke-free law went into place.³⁹

FACT: Smoke-Free Laws Do NOT Increase Unemployment

- Opponents of smoke-free laws cite unemployment as another reason why smoking bans are bad. To examine the merits of this claim, researchers assessed the number of restaurants and the number of restaurant employees. What researchers learned is that restaurants were more profitable with a smoke-free ordinance in place.
- When New York City first made its restaurants smoke-free during the mid-1990s, the city experienced a boom in employment. Between April 1993 and April 1997, New York City, as well as its neighboring smoke-free communities, experienced increases in both the numbers of restaurants and restaurant employees. New York City's restaurant employment growth was found to be more than three times that of the entire state.⁴⁰ By 1999, four years after the smoking ban in restaurants was put into effect, researchers found that more than 22,000 restaurant employees were employed in New York City—an 18 percent increase from 1990.⁴¹
- Today, New York City's hospitality workers are doing exceptionally well despite claims that the smoke-free law would have a negative impact. Between March 2003 and December 2003, New York City reported 10,600 new jobs in its bars and restaurants.⁴² In fact, despite the city's post-

9/11 hardship, 164,000 workers are employed in the city's bars and restaurants—the highest number recorded in the last 10 years.

FACT: Smoke-Free Laws Do NOT Reduce Tourism

- Several studies have shown that smoke-free policies do not affect tourism or hotel/motel revenues.^{43,44,45, 46, 47}
- One study found that smoke-free laws were associated with increased hotel revenues in four localities: Los Angeles, California, New York City, New York, Mesa, Arizona, and the state of Utah.⁴⁸
- Another study found that the number of tourists that visited California and New York also increased after the implementation of these states' smoke-free policies. The study also looked at seven other localities and observed no significant changes in tourist rates following the implementation of smoke-free policies.⁴⁹
- The state of Florida, known for its world-class theme and amusement parks, implemented its smoke-free law on July 1, 2003. The law prohibits smoking in most of the state's enclosed workplaces. Approximately one year after the smoking ban went into effect, researchers found that there was no significant change in the number of recreational admissions across the state. Moreover, the number of people employed in the leisure and hospitality industry increased almost two percent during the year the ban was in place.⁵⁰

FACT: Smoke-Free Laws Save Businesses Money

- The social costs of secondhand smoke are substantial. In 2005, the estimated economic value of lost wages, fringe benefits, and services associated with secondhand smoke exposure amounted to \$4.7 billion per year nationwide.⁵¹
- In 1994, the EPA estimated the net health savings of eliminating secondhand smoke in all indoor workplaces (from reducing premature deaths and tobacco-related illness) to be between \$35 and \$66 billion a year.⁵²
- Allowing smoking in the workplace increased business owners' costs by \$1,300 per year per smoking employee.⁵³
- Smoking employees have significantly higher absentee, injury, accident, and disciplinary rates than their non-smoking colleagues.^{54, 55, 56, 57, 58}
- Other costs associated with smoking in the workplace are increased housekeeping and maintenance costs. The EPA found that if most businesses implemented smoking restrictions, nationwide, between four and eight billion dollars a year could be saved in operating and maintenance costs.⁵⁹
- Some business owners have been found liable in lawsuits filed by sick employees seeking damages related to smoking in the workplace.^{60,61,62,63,64}
- By allowing smoking in the workplace, business owners increase their costs of doing business: Employers pay increased health, life, and fire insurance premiums, make higher workers' compensation payments, incur higher worker absenteeism, and settle for lower work productivity.^{65,66,67,68, 69, 70, 71, 72}
- A 2003 survey of air quality before and after the Delaware smoking ban was implemented concluded that the state's smoke-free law significantly reduced the risk of cancer, heart disease, stroke and respiratory disease among workers and patrons in the hospitality industry.⁷³
- New York is well on its way to improving the health of its residents, which could lead to a reduction in related health costs. Before New York City implemented its smoke-free ordinance, an air quality survey conducted by the New York State Department of Health found that air

pollution levels in bars permitting smoking were as much as 50 times greater than pollution levels at the Holland Tunnel entrance during rush hour. Six months after the Smoke-Free Air Act was in force, the Health Department found a six-fold reduction in air pollution levels in the same establishments.⁷⁴

- One year into New York City's smoking ban, 157,000 fewer adult New Yorkers reported being exposed to second-hand smoke at work or at home.⁷⁵ The New York State Department of Health found tremendous gains among the city's hospitality workers; cotinine levels—a byproduct of secondhand smoke exposure—declined by 85 percent among a sample of the city's bar and restaurant workers.⁷⁶ Smoking among the city's adults declined 11 percent, resulting in 140,000 fewer smokers, preventing 45,000 premature deaths, and saving over \$500 million annually in tobacco-related health care costs.^{77,78}

Conclusion:

After looking at the facts, it becomes clear that concerns about the business costs of smoke-free policies are unfounded. The facts are that smoke-free laws are good for businesses; they're good for the people who frequent them; and they're good for the people who work in them. Anecdotal evidence does not accurately gauge the effect of smoke-free laws on business activity. Research published in leading, scientific journals has consistently and conclusively shown that smoke-free laws have no adverse effects on the hospitality industry,^{79,80} and, in fact, can actually be good for business. The only negative effects of smoke-free air laws are on the tobacco companies themselves, as evidenced by the following statement from a tobacco company executive: "If smokers can't smoke on the way to work, at work, in stores, banks, restaurants, malls and other public places, they are going to smoke less. Overall cigarette purchases will be reduced and volume decline will accelerate."⁸¹

Finally, it must be taken into consideration that while restaurant and bar patrons can choose in which establishments they spend their time, workers do not have the same choice. The American Cancer Society believes that no one should have to choose between a job and good health. Therefore, the Society stands ready to work with our partners, both private and public, to implement legislative and regulatory measures that limit smoking in public places and work environments. Further, the Society opposes preemptive state legislation that restricts local authorities from regulating clean indoor air. The American Cancer Society urges policymakers and community leaders to support smoke-free efforts, so we can make life-saving progress that reduces and prevents death, suffering, and disease from tobacco.

Policy
National Government Relations Department
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² New York City Department of Finance, New York City Department of Health and Mental Hygiene, New York City Department of Small Business Services, and New York City Economic Development Corporation (2004). *The State of Smoke-Free New York City: A One Year Review*.

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