

Raising Cigarette Taxes Will Increase Revenues, Lower Health Care Costs, and Reduce Smoking—A Win, Win, Win

Louisiana is in the midst of a crisis of historic proportions. Public needs are growing and the resources it takes to meet them have shrunk. To solve this crisis—to get Louisiana's budget out of the ditch—without further damaging institutions and reducing services critical to the state's future growth, will take more than a cuts-only strategy. Instead we need a more balanced approach, one that includes additional sources of revenues. This Research Note is the third in a series of revenue proposals aimed at helping Louisiana solve its problems in a responsible way that promotes job-creation and future prosperity.

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Louisiana remains one of the least expensive places in the country to buy cigarettes. According to *America's Health Rankings* by the United Health Foundation, Louisiana also has the ninth highest smoking rate and the second worst overall health record, due, in part, to high rates of cancer and cardiovascular deaths, hypertension, and racial disparities in access to health care, all of which smoking makes worse.¹ There is significant research that shows higher prices reduce long-term demand for cigarettes by discouraging smoking by young people, thus promoting better overall health in communities across the country.² By raising taxes on cigarettes, the state could generate much needed revenue to help close the projected \$1.6 billion budget shortfall for the upcoming fiscal year, provide money for necessities such as public education, colleges and universities, health care, and public safety, and reduce the number of people, especially children, who smoke.³ That's a win, win, win for the state. Current law taxes cigarettes at 36 cents per pack.

The Campaign for Tobacco Free Kids reports that, since 2002, "47 states, D.C., and several U.S. territories have increased their cigarette tax rates more than 100 times." Louisiana last increased its tax on tobacco in 2002, when the Legislature approved a 12 cent per pack tax increase and extended until June 30, 2012, a 4 cent per pack increase passed in 2000. Last year, tobacco taxes, including the taxes on cigarettes, generated \$137 million in revenue and are projected to bring in a similar amount this year. However, Louisiana is poised to *lose* \$12 million per year when the tax extension passed in 2002 expires in 2012, worsening an already bad revenue situation.

Increasing cigarette taxes by one dollar a pack – to \$1.36 – would add approximately \$301 million a year to the state's coffers and bring Louisiana in line with the rest of the country,* according to an analysis by the Institute on Taxation and Economic Policy (see table on next page). A 50 cent per pack increase would generate about \$158 million.

As the following table indicates, Louisianans at all income levels would see an increase in their taxes, but those with lower incomes would face a larger increase as a share of income. In other words, cigarette tax increases are regressive.

*Overall, the average tax rate in the United States is \$1.45 per pack of cigarettes. In Texas, cigarettes are taxed at \$1.41 per pack, in Arkansas at \$1.15 per pack, and in Mississippi at 68 cents per pack.

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Analysis of Increasing Louisiana's Cigarette Tax							
	Lowest 20% Less Than \$16,000	Second 20% \$16,000 - \$31,000	Middle 20% \$31,000 - \$49,000	Fourth 20% \$49,000 - \$86,000	Next 15% \$86,000 - \$170,000	Next 4% \$170,000 - \$433,000	Top 1% \$433,000 - Or More
Average Income in Group	\$11,000	\$23,000	\$40,000	\$64,000	\$116,000	\$243,000	\$1,150,000
Increase Cigarette Tax 50 Cents							
Tax as % of Income	+0.6%	+0.3%	+0.2%	+0.1%	+0.1%	+0.0%	+0.0%
Average Tax Change	\$62	\$72	\$70	\$79	\$87	\$86	\$95
Increase Cigarette Tax 1 Dollar							
Tax as % of Income	+1.1%	+0.6%	+0.3%	+0.2%	+0.1%	+0.1%	+0.0%
Average Tax Change	\$118	\$137	\$134	\$151	\$167	\$164	\$182

On the other hand, the health benefits of reducing smoking are significant, and disproportionately benefit low-income people, who are more likely to smoke than those with higher incomes. In addition, it is now somewhat easier for low-income people to quit smoking than in the past because, under federal health care reform, Medicaid now covers counseling and smoking cessation drugs for pregnant women, and will soon offer incentives for states to expand tobacco counseling services to those not previously covered by Medicaid.

Cigarette prices in Louisiana rank 48th in the country.⁴ Probably not coincidentally, consumption of tobacco in the state is higher than the national average. Over 675,000 people, or one in five adults in Louisiana, regularly smoke cigarettes, according to the Centers for Disease Control and Prevention 2010 Tobacco Control State Highlights. In 2009, more than 364.5 million packs were sold, about 1,623 cigarettes for every man, woman, and child in Louisiana.[†] Perhaps most concerning, about one in five high school teens in Louisiana currently smoke cigarettes and over half of those teens say they have smoked cigarettes at some point. Some of these teenagers will develop lifelong addictions, making them less healthy and less productive workers as adults, weakening the state economy. Since teenagers are particularly price-sensitive, raising Louisiana's low cigarette taxes could save some teens from getting hooked, improving the economy's long-term potential.

Some considerations for policy makers considering a cigarette tax increase:

Increasing cigarette taxes by \$1 or 50 cents per pack would help bridge the FY2012 budget shortfall while fostering healthier communities in Louisiana. However, policy makers considering a cigarette tax increase should keep in mind the following concerns and take steps to mitigate them in any proposed legislation:

- Like all taxes on things we consume, cigarette taxes are regressive, which means that this tax will take a relatively larger percentage bite out of poor people's income than from the well-to-do. Some states have offset the increased burden on the poor by using a portion of the additional revenue to increase the Earned Income Tax Credit or to provide sales or property tax credits for low-income families.

[†]Data from <http://www.tobaccofreekids.org/research/factsheets/pdf/0099.pdf>. Campaign for Tobacco-Free Kids estimates that 364.5 million packs of cigarettes were sold in Louisiana in FY 2009. At 20 cigarettes per pack, that equals 1,623 cigarettes for every person in Louisiana based on the state's 2010 Census population of 4,492,076.

- Revenues from cigarette taxes decline over time as smoking decreases and therefore cannot support state services that naturally increase in cost over time. This mismatch between revenues and costs may upset an already distrustful public if the money raised from an increase in the cigarette tax is dedicated to fund ongoing, specific services. So it is important to treat an increase in cigarette taxes as one-time or short-term source of revenue to help dig Louisiana out of its fiscal hole.

Previous Research Notes in series

Itemized Deduction for State and Local Income Taxes Costs Money We Can't Afford to Lose

http://www.labudget.org/lbp/wp-content/uploads/2011/03/Itemized-Deduction-for-State-and-Local-Income-Taxes.FINAL_.pdf

Two New Tax Brackets for High-Income Households Would Limit State Economic Damage

<http://www.labudget.org/lbp/wp-content/uploads/2011/03/Two-New-Tax-Brackets-for-High-Income-Households.Paper2-.pdf>

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About the Louisiana Budget Project

The Louisiana Budget Project (LBP) provides independent, nonpartisan research and analysis of Louisiana fiscal issues and their impact on Louisiana families and businesses. We seek to bring wider prosperity to Louisiana through a deeper understanding of the state budget, broadening fiscal policy debates, and increasing public participation in decision-making. As part of the State Fiscal Analysis Initiative's 40 state budget projects that are coordinated by the national Center on Budget and Policy Priorities, we uphold a commitment to issuing work that is Credible, Timely, and Accessible.

End Notes

¹ "America's Health Rankings. Louisiana (2010)." *United Health Foundation*.

<http://www.americashealthrankings.org/yearcompare/2009/2010/LA.aspx#>

² Lewit, Eugene M. and Douglas Coate. "The Potential for Using Excise Taxes to Reduce Smoking." *Journal of Health Economics*, Vol. 1, No. 2 (1982) pp. 121-145.

³ Carpenter, Christopher and Philip J. Cook, "Cigarette Taxes and Youth Smoking: new Evidence from National, State and Local Youth Risk Behavior Surveys." *Journal of Health Economics*, Vol. 27(2), March 2008.

⁴ "2010 State Cigarette Excise Taxes." *National Conference of State Legislatures*. Last updated July 1, 2010.

<http://www.ncsl.org/default.aspx?tabid=14349>

⁵ "State Tobacco Activities Tracking and Evaluation (STATE) System." Centers for Disease Control and Prevention. 2009.

<http://apps.nccd.cdc.gov/statesystem/DetailedReport/DetailedReports.aspx#ReportDetail>