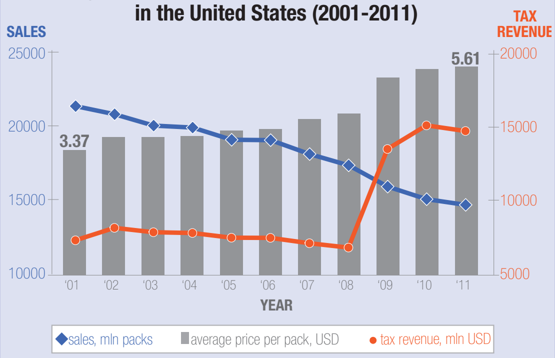
TOBACCO TAX SUCCESS STORY

UNITED STATES of AMERICA

FCTC ARTICLE 6

Price and tax measures are an effective and important means of reducing tobacco consumption… Each party should… adopt… tax policies and… price policies on tobacco products, so as to contribute to the health objectives aimed at reducing tobacco consumption.

On April 1, 2009, the U.S. federal cigarette tax rate increased by 61.66 cents per pack to provide funding to renew the State Children's Health Insurance Program. As a result, federal cigarette tax revenues increased 129% (or $8.7 billion), cigarette pack sales declined 11%, and smoking among youth and adults declined.



Cigarette Prices, Sales, and Tax Excise Revenue in the United States (2001-2011)

The most effective method for reducing tobacco consumption is to increase the price of tobacco products through tax increases. Higher tobacco prices encourage cessation among existing tobacco users, prevent initiation among potential users, and reduce the quantity of tobacco consumed among continuing users.

Tobacco Use

Over 45 million (19.3%) U.S. adults (age 18+) smoke cigarettes. More than one in five (21.5%) men and more than one in six (17.3%) women smoke cigarettes. Among high school youth, 18.1% currently smoke cigarettes (boys 19.9%; girls 16.1%).

Tax Structure

The U.S. federal excise tax on cigarettes is a specific tax, charged per stick. Cigarettes are also subject to state and, in some cases, local tobacco taxes.

Tax Change

The federal excise tax on cigarettes increased by 61.66 cents per pack on April 1, 2009 from $0.39 to $1.0066. Before that, the last tax rate increase was in 2002.

Industry Reaction. The tobacco industry reacted to the federal tobacco excise tax increases in two ways: increasing their product prices and manipulating their products to fall into lower-taxed categories. The rate increase was passed by the U.S. Congress in February, to go into effect on April 1st, but in early March, the major cigarette companies increased their product prices by ten cents over the tax rate increase to generate profit while blaming the government for the price increase.

At the same time, makers of other tobacco products changed their products to circumvent the new, higher tax rates on certain products. The federal excise tax rates on roll-your-own (RYO) tobacco and small cigars were equalized to the cigarette tax rate while the tax rates on pipe tobacco and cigars were increased by less. Manufacturers manipulated their products so that RYO tobacco packages became labeled "pipe tobacco" with little change to the products themselves.

Public Support. A 2007 poll found that two-thirds of all voters support a significant increase in the federal cigarette tax to provide health care coverage to uninsured children.

Impact of Tax Increase

Tax and Price

While the federal cigarette tax rate had increased 158% after April 1, 2009, the average retail price of cigarettes increased by 22% between November 2008 and November 2009.

Sales

Cigarette sales dropped by 11.1% in the twelve months after the rate increase went into effect.

Prevalence

Adult smoking prevalence declined by 6.3% from 20.6% in 2008 to 19.3% in 2010. Immediately after the federal tax increase, tobacco use among youth (8th, 10th, and 12th graders) declined between 9.7% to 13.3%.

Reduction of Smokers

The increase in cigarette price resulted in increased cessation and reduced smoking initiation. There are an estimated 3.1 million fewer adult smokers after the increase, and according to Huang et al., just the immediate 9.7-13.3% decline in youth smokers resulted in an estimated 220,000 to 287,000 youth prevented from becoming smokers.

Government Revenue

Increases in tobacco tax and price led to higher tobacco tax revenues despite falling consumption. Government cigarette tax revenue increased by 129% from $6.8 billion in the 12 months before the increase to $15.5 billion in the 12 months after.

Sources

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