



June 25, 2018

To: Members of the Tax Reform and Relief Legislative Task Force

The following are attached for your review:

1. Additional information related to the increase of the cigarette tax.
2. Fact Sheet Related to Cross Border Sales and Smuggling
3. Fact Sheet Related to the Impact of Cigarette Tax Increases on Low Income Populations.

Also, with last week's statistics released, Minnesota and Florida now experience an adult and youth smoking rate below the national average. Also, the state of Oklahoma's tobacco tax increase was upheld by the Oklahoma Supreme Court and will be \$2.03 effective July 1, 2018.

Your work is greatly appreciated. Better tax policy will be the result of the hours each of you has spent in your work on this Task Force. This is a unique occasion for our state to improve our economy and our public health. I welcome the opportunity to answer any question you may have. My contact information is below.

Respectfully submitted,

Michael Keck
Government Relations Director
American Cancer Society,
Cancer Action Network, Arkansas

Michael Keck
Government Relations
Director

American Cancer Society Cancer Action Network
901 North University Avenue, Little Rock, AR 72207
Office: 501-603-5212 Cell 501-658-4632 Email Address: michael.keck@cancer.org

Mr. Chairman and members of the Tax Reform Task Force, thank you for the opportunity to speak to you today. My name is Michael Keck. I am the Arkansas Government Relations Director for the American Cancer Society Cancer Action Network. On behalf of cancer survivors, family members of those who have fought cancer and those that provide care to the cancer patient in our state, I want to express my appreciation for being allowed to provide additional explanation to the testimony I provided last week and to provide clarification to any confusion that exist.

Last week, I testified as to the need for a significant increase in the cigarette tax. Our state is 3rd in the nation in our adult smoking rate. Our youth smoking rate is nearly twice the national average. More than 1/3 of the cancer deaths in Arkansas are tied to smoking, second only to the state of Kentucky. The national decline in the incidence of lung cancer and in lung cancer deaths has not been experienced at the same level in Arkansas. In fact, our incidence of lung cancer and in lung cancer deaths are still slightly above what the national averages were 19 years ago.

And this is not just a public health issue, it is an economic issue as well. Our state loses \$1.7 billion in worker productivity and more than \$1.2 billion is spent annually on smoking related health care costs.

As I stated last week, the actions of this task force can be the start of reversing these trends. Concerns were expressed last week about the high rate proposed and its potential negative impact. Let me address these concerns:

- 1) **Significantly Increasing Tobacco Taxes Will Increase Revenue Despite Cross-State Sales Claims** – Last week, I referenced significant cigarette tax increases in two states, Florida and Minnesota. In both states, borders were shared with multiple states with a lower cigarette tax. In 2009, Alabama had a rate of 42.5 cents per pack and Georgia had a rate of 37 cents per pack. When Florida implemented their \$1.00 per pack cigarette tax, increasing their tax to \$1.33 per pack, they experienced a 193.2 percent increase in cigarette tax revenue while Alabama and Georgia experienced a 4.4 and 5.1 percent decline respectively in cigarette tax revenue. In Minnesota, similar experience occurred when their state increased their cigarette tax by \$1.60. Wisconsin, Iowa, South and North Dakota all had lower cigarette tax rates. Yet, they increased their state revenue by more than \$204 million and their rates of adults and youth who smoke were sharply reduced.

The National Research Council and Institute of Medicine's found that "although revenues will be higher in low-tax jurisdictions because of avoidance and evasion, the magnitude of this increase will be smaller than the magnitude of the revenue decline in high-tax jurisdictions."¹ People are creatures of habit. While some

consumers initially try to avoid paying higher taxes and prices by experimenting with lower-cost, lower-taxed options further afield, most consumers will soon return to local retail buying patterns closer to home. It's important to remember 68 percent of people who smoke indicate they want to quit.ⁱⁱ

Therefore, it's no surprise that studies show cigarette consumers prefer to buy their cigarettes in smaller quantities, and not in cartons,ⁱⁱⁱ and people don't generally drive long distances to purchase small quantities of cigarettes.

Conclusion: Each state that has significantly increased its cigarette tax has experienced substantial increases in state revenue.

- 2) **The Impact of Tobacco Tax Increases on Low-Income Populations** – Current low tobacco prices continue to incentivize smoking for low-income and other vulnerable populations, causing these groups to shoulder a disproportionate share of the real cost of tobacco use. In response to tobacco tax increases, low-income populations quit smoking at higher rates than higher income populations.^{iv} The tobacco industry likes to negatively characterize the impact of higher tobacco taxes on low-income populations. The truth is that low-income populations are more likely to quit in response to regular and significant tobacco tax increases.^v Similarly, low-income populations also disproportionately reap the health and financial benefits of reduced smoking. Research has determined that 46 percent of the lives saved due to smoking reductions attributable to the 2009 federal tobacco tax increase were enjoyed among those below the poverty line, even though this group paid just 12 percent of the tax increase.^{vi}

I should also note the specific reason for a significant tax increase on cigarettes. Tobacco advertising and promotions has evolved over the years. Now it is focused on pricing and retail promotions. In 2015, major cigarette companies spent 88 percent of their cigarette marketing budgets, nearly \$7.3 billion on coupons and promotions that reduced prices paid for cigarettes.^{vii}

Conclusion: A significant increase in the cigarette tax will reduce smoking, prevent illness, save lives and reduce some disparities in health outcomes in our state.

- 3) **Significant Tobacco Tax Increases Reduce Tobacco Use & Generate New Revenue Despite Smuggling Claims**—Claims of smuggling are greatly exaggerated. Consider the real facts: every state that has significantly increased its state cigarette tax has also boosted its state revenue, despite the beneficial declines in consumption resulting from the tax increase, and regardless of any related tax avoidance, tax evasion, or illicit activity.^{viii} Common-sense measures are available to states to further minimize black market sales. Many options exist for state officials to crack down on cigarette smuggling and counterfeiting.^{ix,x} These recommended measures intended to minimize illicit activity are additionally advantageous because such actions may also help reinforce the positive health outcomes and decreased associated health care costs that are realized through reduced tobacco consumption.^{xi} I am confident that our Tobacco Control Board, its leadership team and agents will enforce our laws to reduce illicit activity. An increase in the tax on cigarettes will not generate the amount of smuggling as others have expressed.

Mr. Chairman, let me reiterate, it is not only for public health reasons that I ask for this \$1.50 per pack cigarette tax increase. It is for the very reason many of you have sought change in our tax code. We must make Arkansas more competitive. A \$1.50 per pack cigarette tax increase would generate a projected \$121.3 million in new annual revenue, which would provide the flexibility this task force wants and needs to provide the income tax relief you desire for individuals and for corporations; the reform we so greatly need to better compete to attract, retain and expand industry in our state, to attract and hold onto the highly trained worker and to better our state's economy. This is a unique opportunity to improve our economy AND improve our state. I respectfully ask that you bring forward a cigarette tax increase of \$1.50 per pack.

ⁱ National Research Council (NRC) & Institute of Medicine (IOM), *Understanding the U.S. Illicit Tobacco Market: Characteristics, Policy Context, and Lessons from International Experiences*, Committee on the Illicit Tobacco Market: Collection and Analysis of the International Experience, P. Reuter and M. Majmundar, Eds. Committee on Law and Justice, Division of Behavioral and Social Sciences and Education. Board on Population Health and Public Health Practice, Institute of Medicine. Washington, DC: The National Academies Press, 2015

ⁱⁱ U.S. Centers for Disease Control and Prevention. *Quitting smoking among adults – United States 2000-2015. Morbidity and Mortality Weekly Report*, January 6, 2017: 65(52); 1457–1464.

ⁱⁱⁱ Cornelious, M., et al. Trends in cigarette pricing and purchasing patterns in a sample of US smokers: findings from the ITC US Surveys (2002 – 2011). *Tobacco Control* 2015; 24:iii4-iii10.

^{iv} U.S. National Cancer Institute (NCI) & World Health Organization (WHO), *The Economics of Tobacco and Tobacco Control*, National Cancer Institute Tobacco Control Monograph 21, NIH Publication No. 16-CA-8029A, Bethesda, MD: HHS, National Institutes of Health, National Cancer Institute; and Geneva, CH: World Health Organization; 2016, https://cancercontrol.cancer.gov/brp/tcrb/monographs/21/docs/m21_complete.pdf.

^v International Agency for Research on Cancer, "Tax, price and tobacco use among the poor," *Effectiveness of Tax and Price Policies for Tobacco Control*, IARC Handbook of Cancer Prevention Volume 14, 2011.

^{vi} Chaloupka FJ. The science behind tobacco taxation, presented Aug. 16, 2012 at the National Conference on Tobacco or Health, Kansas City, MO. See also Center for Budget and Policy Priorities, Higher tobacco taxes can improve health and raise revenue: <http://www.cbpp.org/research/higher-tobacco-taxes-can-improve-health-and-raise-revenue>.

^{vii} U.S. Federal Trade Commission (FTC), Cigarette Report for 2015, 2017, https://www.ftc.gov/system/files/documents/reports/federal-trade-commission-cigarette-report-2015-federal-trade-commissionsmokeless-tobacco-report/2015_cigarette_report.pdf [data for top 5 manufacturers only];

^{viii} Campaign for Tobacco-Free Kids. Raising state cigarette taxes always increases state revenues (and always reduces smoking). Data source: Orzechowski & Walker 2014. Tax burden on tobacco, monthly data of gross tax revenues. Document available at: <http://www.tobaccofreekids.org/research/factsheets/pdf/0098.pdf>. Accessed November 22, 2016.

^{ix} Chaloupka F, Matthes Edwards S, Ross H, Diaz M, Kurti M, Xu X, Pesko M, Merriman D, DeLong H. Preventing and Reducing Illicit Tobacco Trade in the United States, a publication of the U.S. Centers for Disease Control and Prevention, National Center for Chronic Disease Prevention and Health Promotion, Office of Smoking and Health. December 2015. Available at: <https://www.cdc.gov/tobacco/stateandcommunity/pdfs/illicit-trade-report-121815-508tagged.pdf>. Accessed November 27, 2016.

^x Campaign for Tobacco-Free Kids. State options to prevent and reduce cigarette smuggling and block other illegal state tobacco tax evasion. Document available at: <http://www.tobaccofreekids.org/research/factsheets/pdf/0274.pdf>. Accessed November 27, 2016.

^{xi} Chaloupka F, Matthes Edwards S, Ross H, Diaz M, Kurti M, Xu X, Pesko M, Merriman D, DeLong H. Preventing and Reducing Illicit Tobacco Trade in the United States, a publication of the U.S. Centers for Disease Control and Prevention, National Center for Chronic Disease Prevention and Health Promotion, Office of Smoking and Health. December 2015. Available at: <https://www.cdc.gov/tobacco/stateandcommunity/pdfs/illicit-trade-report-121815-508tagged.pdf>. Accessed November 27, 2016.

Significantly Increasing Tobacco Taxes Will Increase Revenue Despite Cross-Border Sales Claims

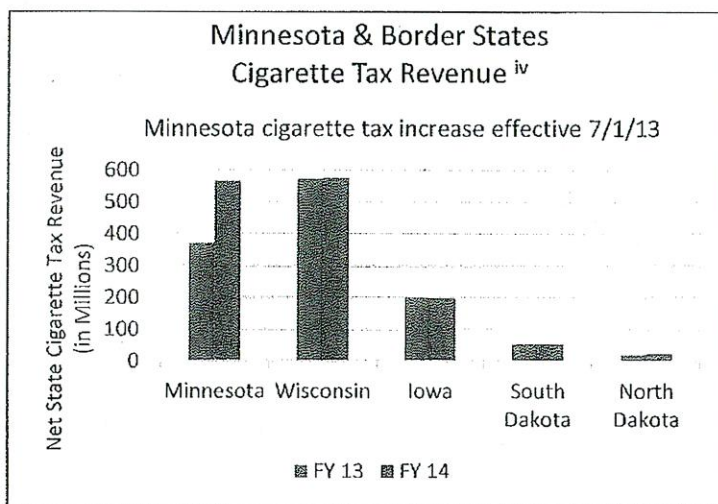
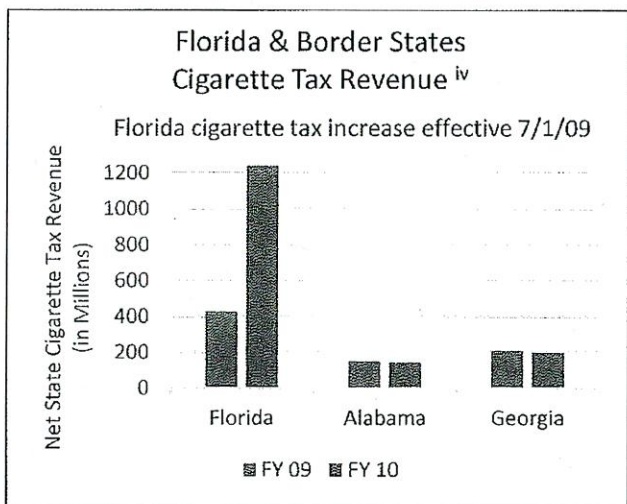


One of the best things states can do to improve public health, generate revenue, and provide funding for critical unmet needs is to significantly increase tobacco taxes.

Cross-border sales are greatly exaggerated

The National Research Council and Institute of Medicine's found that "although revenues will be higher in low-tax jurisdictions because of avoidance and evasion, the magnitude of this increase will be smaller than the magnitude of the revenue decline in high-tax jurisdictions."ⁱ People are creatures of habit. While some consumers initially try to avoid paying higher taxes and prices by experimenting with lower-cost, lower-taxed options further afield, most consumers will soon return to local retail buying patterns closer to home. It's important to remember 68 percent of people who smoke indicate they want to quit.ⁱⁱ Therefore, it's no surprise that studies show cigarette consumers prefer to buy their cigarettes in smaller quantities, and not in cartons,ⁱⁱⁱ and people don't generally drive long distances to purchase small quantities of cigarettes.

Significant tobacco tax increases are proven to be effective in reducing tobacco consumption while also generating new revenue, even when surrounded by lower-tax states.



- In the twelve months following Florida's cigarette tax increase from 33.9 cents to \$1.339 per pack the state experienced a 193.2 percent increase in cigarette tax revenue.^v Meanwhile their neighboring states of Alabama and Georgia experienced cigarette tax revenue declines of 4.4 percent and 5.1 percent respectively despite having tax rates of nearly \$1.00 less per pack (Alabama 42.5 cents per pack and Georgia 37 cents per pack).
- In Minnesota, in the year immediately following the state's \$1.60 per pack cigarette tax increase in 2013, revenues increased by more than \$204 million, pack sales declined by 54.6 million packs, and adult and youth smoking rates were showing sharp reductions in the state.^{vi} At the time, this cigarette tax increase was tied for the highest single cigarette tax rate increase ever implemented by a state. When it went into effect, Minnesota shared a border with two states whose cigarette tax was in excess of \$1.00 per pack less (Iowa and South Dakota) and one state whose cigarette tax rate was more than \$2.00 less (North Dakota).

While it is true that any tax evasion that does occur will tend to reduce the ultimate extent of revenue gains, these types of illicit activities do not come close to eliminating all the new revenues or seriously impacting the health gains that are achieved when states increase tobacco taxes by significant amounts.^{vii} **Every single state that has significantly increased its cigarette tax has experienced substantial increases in state revenue.^{viii}**

ⁱ National Research Council (NRC) & Institute of Medicine (IOM), Understanding the U.S. Illicit Tobacco Market: Characteristics, Policy Context, and Lessons from International Experiences, Committee on the Illicit Tobacco Market: Collection and Analysis of the International Experience, P. Reuter and M. Majmundar, Eds. Committee on Law and Justice, Division of Behavioral and Social Sciences and Education. Board on Population Health and Public Health Practice, Institute of Medicine. Washington, DC: The National Academies Press, 2015

ⁱⁱ U.S. Centers for Disease Control and Prevention. Quitting smoking among adults – United States 2000–2015. *Morbidity and Mortality Weekly Report*, January 6, 2017; 65(52); 1457–1464.

ⁱⁱⁱ Cornelious, M., et al. Trends in cigarette pricing and purchasing patterns in a sample of US smokers: findings from the ITC US Surveys (2002 – 2011). *Tobacco Control* 2015; 24:iii4–iii10.

^{iv} Orzechowski & Walker, The Tax Burden on Tobacco, 2016 [industry-funded report]

^v Chaloupka, Frank J. "Cigarette Smuggling in Response to Large Tax Increase is Greatly Exaggerated." November 2017. Available at: <https://tobacconomics.org/wp-content/uploads/2017/11/2017-generic-smuggling-report.pdf>

^{vi} A February 12, 2015 op-ed by Boyle R, Chaloupka F, and Mattson L. appearing in *MinnPost*. Available at:

<https://www.minnpost.com/community-voices/2015/02/facts-are-minnesotas-2013-tobacco-tax-increase-improving-health> Accessed December 14, 2017. See also: Mattson, L, Chaloupka, F., and Boyle, R. Get the Facts: Minnesota's 2013 Tobacco Tax Increase is Improving Health. February 10, 2015. https://tobacconomics.org/wp-content/uploads/2015/02/Minnesota-2013-Tobacco-Tax-White-Paper_10Feb15.pdf

^{vii} Campaign for Tobacco-Free Kids. Raising state cigarette taxes always increases state revenues (and always reduces smoking). Data source: Orzechowski & Walker 2014. Tax burden on tobacco, monthly data of gross tax revenues. Document available at:

<http://www.tobaccofreekids.org/research/factsheets/pdf/0098.pdf>. Accessed November 22, 2016.

^{viii} Campaign for Tobacco-Free Kids. Raising State Cigarette Taxes Always Increases State Revenues (And Always Reduces Smoking) Fact Sheet. Updated January 12, 2018 Available at: <http://www.tobaccofreekids.org/research/factsheets/pdf/0098.pdf>

The Impact of Tobacco Tax Increases on Low-Income Populations



Significantly increasing the price of tobacco is an important component of a comprehensive approach to reducing tobacco use.ⁱ Tobacco tax increases are endorsed by the U.S. Surgeon General as a highly effective strategy for reducing tobacco use through higher tobacco prices.ⁱⁱ

Current low tobacco prices continue to incentivize smoking for low-income and other vulnerable populations, causing these groups to shoulder a disproportionate share of the real cost of tobacco use. **In response to tobacco tax increases, low-income populations quit smoking at higher rates than higher income populations.**ⁱⁱⁱ The tobacco industry likes to negatively characterize the impact of higher tobacco taxes on low-income populations.

The real cost of smoking and other tobacco use to low socio-economic populations includes:

- **Medical and social costs** borne by individuals and families for treating higher rates of tobacco-related disease, including significantly increased risk for deadly and debilitating chronic diseases including cancer, heart disease, and lung disease such as emphysema and COPD; and
- **Lost productivity** for both employees and their employers who are faced with an individual's quality years of life lost and employee time spent not working due to tobacco-related illness.

This type of tobacco industry "spin" misses the real point of tobacco tax increases: reducing smoking, saving lives and preventing tobacco-related disease. In fact, the tobacco industry has a long and well-documented history of targeting racially diverse and low-income populations with discounts and promotions of its deadly and addictive products.^{iv,v ,vi}

The truth is that low-income populations are more likely to quit in response to regular and significant tobacco tax increases.^{vii} Similarly, low-income populations also disproportionately reap the health and financial benefits of reduced smoking. Research has determined that 46% of the lives saved due to smoking reductions attributable to the 2009 federal tobacco tax increase were enjoyed among those below the poverty line, even though this group paid just 12% of the tax increase.^{viii}

Tobacco tax increases can reduce health-related disparities when more low-income smokers quit.^{ix,x,xi} Health disparities stemming from tobacco use further contribute to other economic and social disparities when the high cost of cancer, heart disease, lung disease, and other chronic illness is considered. In *The Economic and Health Benefits of Tobacco Taxation*, the World Health Organization stated, "all the evidence shows that poorer tobacco consumers are far more responsive to increases in price than higher income consumers, and therefore benefit the most in terms of avoiding death and disease associated with tobacco use."^{xii}

Tobacco tax increases produce reliable sources of new, recurring revenue that can fund state tobacco control programs and other health programs that directly benefit low-income populations. The health impact of tobacco tax increases can be magnified by utilizing the revenue from tax increases to help fund state tobacco prevention and cessation programs that provide resources to further support those trying to quit.

Tobacco tax increases are a public health intervention that works to reduce the real cost of smoking for both current and future populations. Tobacco tax increases reduce current tobacco use among adult smokers and prevent future youth use. Young people are 2 to 3 times more likely than adults to reduce tobacco consumption as a result of a tobacco price increase.^{xiii} And the prevention benefits extend to future generations who grow up in tobacco-free households.

Tobacco tax increases give current and future tobacco users essentially a “tax cut” when they help people quit. Reducing tobacco use saves a lot of money beyond the retail cost of cigarettes, with additional savings occurring in terms of preventing the health and social damages that figure prominently in the real cost of tobacco use.

ⁱ Centers for Disease Control and Prevention (CDC). Best Practices for Comprehensive Tobacco Control Programs—2014. Atlanta: 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, 2014.

ⁱⁱ U.S. Department of Health and Human Services. The Health Consequences of Smoking: 50 Years of Progress. 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, 2014. Printed with corrections, January 2014.

ⁱⁱⁱ U.S. National Cancer Institute (NCI) & World Health Organization (WHO), *The Economics of Tobacco and Tobacco Control*, National Cancer Institute Tobacco Control Monograph 21, NIH Publication No. 16-CA-8029A, Bethesda, MD: HHS, National Institutes of Health, National Cancer Institute; and Geneva, CH: World Health Organization; 2016, https://cancercontrol.cancer.gov/brp/tcrb/monographs/21/docs/m21_complete.pdf.

^{iv} U.S. Department of Health and Human Services. Preventing Tobacco Use Among Youth and Young Adults: 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, 2012.

^v Brown-Johnson, CG, England, LJ, Glantz, SA, and Ling, PM. Tobacco industry marketing to low socio-economic status women in the U.S. *Tob Control*, 23(0): e139–e146, 2014.

^{vi} Siahpush, M, Farazi, P, Kim, J, Michaud, T, Yoder, A, Soliman, G, Tibbits, Nguyen, M, Shaikh, R. Social disparities in exposure to point-of-sale cigarette marketing. *Int J of Environ Res Public Health*, 13(12): 1263, 2016.

^{vii} International Agency for Research on Cancer, “Tax, price and tobacco use among the poor,” Effectiveness of Tax and Price Policies for Tobacco Control, IARC Handbook of Cancer Prevention Volume 14, 2011.

^{viii} Chaloupka FJ. The science behind tobacco taxation, presented Aug. 16, 2012 at the National Conference on Tobacco or Health, Kansas City, MO. See also Center for Budget and Policy Priorities, Higher tobacco taxes can improve health and raise revenue: <http://www.cbpp.org/research/higher-tobacco-taxes-can-improve-health-and-raise-revenue>.

^{ix} U.S. National Cancer Institute and World Health Organization. *The Economics of Tobacco and Tobacco Control*. National Cancer Institute Tobacco Control Monograph 21. NIH Publication No. 16-CA-8029A. Bethesda, MD: U.S. Department of Health and Human Services, National Institutes of Health, National Cancer Institute; and Geneva, CH: World Health Organization, 2016.

^x CDC, 2014

^{xi} Center for Public Health Systems Science. Pricing Policy: A Tobacco Control Guide. St. Louis, MO: The Center for Public Health Systems Science at the Brown School at Washington University in St. Louis and the Tobacco Control Legal Consortium; 2014.

^{xii} WHO, The Economic and Health Benefits of Tobacco Taxation, 2015, http://apps.who.int/iris/bitstream/10665/179423/1/WHO_NMH_PND_15.6_eng.pdf?ua=1&ua=1.

^{xiii} U.S. Centers for Disease Control and Prevention. A factsheet entitled “Economic trends in tobacco” https://www.cdc.gov/tobacco/data_statistics/fact_sheets/economics/econ_facts/. Accessed Jan 10 2017.



**NEW REVENUES, PUBLIC HEALTH BENEFITS & COST SAVINGS
FROM A \$1.50 CIGARETTE TAX INCREASE IN ARKANSAS**

- The current state cigarette tax is \$1.15 per pack (34th among all states and DC).
- Annual health care expenditures in Arkansas directly caused by tobacco use are \$1.21 billion.

Projected New Annual Revenue from Increasing the Cigarette Tax by \$1.50 Per Pack: \$121.30 million

New Annual Revenue is the amount of additional new revenue the first full year the tax increase is in effect. The state will collect less new revenue if it fails to apply the rate increase to all cigarettes and other tobacco products held in wholesaler and retailer inventories on the effective date.

Projected Public Health Benefits for Arkansas from the Cigarette Tax Rate Increase	
Percent decrease in youth (under age 18) smoking:	16.4%
Youth under age 18 kept from becoming adult smokers:	22,600
Reduction in young adult (18-24 years old) smokers:	4,600
Current adult smokers who would quit:	26,900
Premature smoking-caused deaths prevented:	14,000
5-Year reduction in the number of smoking-affected pregnancies and births:	4,800
5-Year health care cost savings from fewer smoking-caused lung cancer cases:	\$5.04 million
5-Year health care cost savings from fewer smoking-affected pregnancies and births:	\$12.00 million
5-Year health care cost savings from fewer smoking-caused heart attacks & strokes:	\$11.33 million
5-Year Medicaid program savings for the state:	\$4.86 million
Long-term health care cost savings from fewer years of smoking-related illnesses:	\$100 million

12.10.17 TFK / February 29, 2018

* Arkansas law allows retailers near the border to a state with a lower cigarette tax rate to charge the same tax as the neighboring state with the lower tax rate. This policy reduces the state's revenue and public health benefits from a tax increase because it essentially moves the border inward for tax collection purposes. The new revenue projected on this sheet includes a departmental adjustment for this policy, but because of this adjustment, the public health benefits noted above. Therefore, the full public health benefits noted on this sheet should only be realized if the border exemption policy is removed.

- Small businesses and retailers near the border to a state with a lower cigarette tax rate can easily charge the same tax as the neighboring state with the lower tax rate. This policy reduces the state's revenue and public health benefits from a tax increase because it essentially moves the border inward for tax collection purposes. Splitting a tax rate increase into separate, smaller increases in successive years will similarly diminish or eliminate the public health benefits and related cost savings from an increase in the cigarette tax rate.

state loses revenue each time a cigarette smoker switches to cigars, roll-your-own tobacco, smokeless tobacco, or other tobacco products. The state also loses revenue each time a cigarette smoker switches to cigars, roll-your-own tobacco, smokeless tobacco, or other tobacco products. The state also loses revenue each time a cigarette smoker switches to cigars, roll-your-own tobacco, smokeless tobacco, or other tobacco products.

Explanations & Notes

Health care costs listed at the top of the page are from the U.S. Centers for Disease Control and Prevention (CDC). Annual health care expenditures in Arkansas directly caused by tobacco use are in 2009 dollars and are from the CDC's 2014 *Best Practices for Comprehensive Tobacco Control Programs*.

Projections are based on research findings that nationally, each 10% increase in the retail price of cigarettes reduces youth smoking by 6.5%, young adult prevalence by 3.25%, adult prevalence by 2%, and total cigarette consumption by about 4% (adjusted down to account for tax evasion effects). However, the impact of the tax increase may vary from state-to-state, based on the starting pack price. Significant tax increases generate new revenues because the higher tax rate per pack brings in more new revenue than is lost from the tax-related drop in total pack sales.

The projections also incorporate the effect of ongoing background smoking declines, population distribution, and the continued impact of any recent state cigarette tax increases or other changes in cigarette tax policies on prices, smoking levels, and pack sales.

These projections are fiscally conservative because they include a generous adjustment for lost state pack sales (and lower net new revenues) from possible new smuggling and tax evasion after the rate increase and from fewer sales to smokers or smugglers from other states, including sales on tribal lands. For ways that the state can protect and increase its tobacco tax revenues and prevent and reduce contraband trafficking and other tobacco tax evasion, see the Campaign for Tobacco-Free Kids factsheet, *State Options to Prevent and Reduce Cigarette Smuggling and to Block Other Illegal State Tobacco Tax Evasion*, <https://www.tobaccofreekids.org/assets/factsheets/0274.pdf>.

Projected numbers of youth prevented from smoking and dying are based on all youth ages 17 and under alive today. Projected reduction in young adult smokers refers to young adults ages 18-24 who would not start smoking or would quit as a result of the tax increase. Savings to state Medicaid programs include estimated changes in enrollment resulting from federal laws in effect as of December 2017 and state decisions regarding Medicaid expansion. Long-term cost savings accrue over the lifetimes of persons who stop smoking or never start because of the tax rate increase. All cost savings are in 2018 dollars.

Projections for cigarette tax increases much higher than \$1.00 per pack are limited, especially for states with relatively low current tax rates, because of the lack of research on the effects of larger cigarette tax increase amounts on consumption and prevalence. Projections for cigarette tax increases much lower than \$1.00 per pack are also limited because small tax increases are unlikely to produce significant public health benefits.

Ongoing reductions in state smoking rates will, over time, gradually erode state cigarette tax revenues, in the absence of any new rate increases. However, those declines are more predictable and less volatile than many other state revenue sources, such as state income tax or corporate tax revenues, which can drop sharply during recessions. In addition, the smoking declines that reduce tobacco tax revenues will simultaneously produce much larger reductions in government and private sector smoking-caused health care and other costs over time. See the Campaign for Tobacco-Free Kids factsheet, *Tobacco Tax Increases are a Reliable Source of Substantial New State Revenue*, <https://www.tobaccofreekids.org/assets/factsheets/0303.pdf>.

The projections in the table on this fact sheet were generated using an economic model developed jointly by the Campaign for Tobacco-Free Kids (TFK) and the American Cancer Society Cancer Action Network (ACS CAN) and are updated annually. The projections are based on economic modeling by researchers with Tobacconomics: Frank Chaloupka, Ph.D., John Tauras, Ph.D., and Jidong Huang, Ph.D. at the Institute for Health Research and Policy at the University of Illinois at Chicago, and Michael Pesko, Ph.D., at Georgia State University. The state Medicaid cost savings projections, when available, are based on enrollment and cost estimates by Matt Broaddus at the Center on Budget and Policy Priorities using data from the Centers for Medicare and Medicaid Services.

For other ways states can increase revenues (and promote public health) beyond just raising cigarette tax rates, see the Campaign factsheet, *The Many Ways States Can Raise Revenue While Also Reducing Tobacco Use and Its Many Harms & Costs*, <https://www.tobaccofreekids.org/assets/factsheets/0357.pdf>.

Additional information and resources to support tobacco tax increases are available at:

<https://www.tobaccofreekids.org/what-we-do/us/state-tobacco-taxes/fact-sheets>
<http://acscan.org/tobacco/taxes/>

<http://tobacconomics.org/>

For more on sources and calculations, see <https://www.tobaccofreekids.org/assets/factsheets/0281.pdf> or www.acscan.org/tobaccotaxexplanations.

Ann Boonn, Campaign for Tobacco-Free Kids
Frank J. Chaloupka, Tobacconomics

Katie McMahon, American Cancer Society Cancer Action Network

