



RESPONSES TO MISLEADING AND INACCURATE CIGARETTE COMPANY ARGUMENTS AGAINST STATE CIGARETTE TAX INCREASES

Myth: Are cigarette tax increases regressive and hurtful for poor people?

- It is actually the harms from smoking that are regressive. Lower income communities are the ones that suffer disproportionately from smoking caused diseases.
- Raising cigarette taxes, by getting more lower-income smokers to quit and cutback will reduce those regressive harms and costs to both lower income smokers and their families.
- Raising cigarette taxes will also help lower-income communities the most because lower-income smokers are more likely to quit because of tax increases than higher income smokers.
- Lower-income smokers who quit because of a tax increase not only stop paying any cigarette taxes at all but also stop spending other income on cigarettes.
- Calculating the cigarette tax savings and total cigarette expenditure savings for a pack-a-day smoker in the state who quits can be quite revealing, with potential savings of more than \$1,000 annually.
- Polling has also shown strong support for tobacco tax increases among lower income communities.

Myth: Cigarette tax increases unfairly target smokers and make them shoulder the burden for statewide budget problems.

- Even the most conservative of estimates for smoking related healthcare costs that states have to burden is a great deal more than any income a state receives from cigarette taxes.
- After any state cigarette tax increase, the state cigarette tax per pack, will still be far less than what the U.S. Centers for Disease Control & Prevention (CDC) estimates is the state's smoking-caused healthcare costs per pack (the national average is \$7.18 per pack)
- To make it seem less "unfair", the state should allocate a portion of the new tax revenues to initiate or expand programs to help adult and youth smokers quit (e.g., quit lines, public education, school-based programs, expanded efforts to prevent more kids from cigarette addiction.)

Myth: The state is already getting tons of tobacco money; seeking more is excessive.

- As previously mentioned, revenue from tobacco taxes are currently far outweighed by healthcare costs shouldered by the state.
- The tobacco settlement payments are for reimbursing the state for previous and future illegal and wrongful acts (marketing to youth, failing to disclose known health dangers) committed by the cigarette companies prior to the tobacco settlement. These illegal acts have been fully established and proven by court rulings.

Myth: The state is already getting more per pack than the cigarette companies.

- In reality, every state suffers a net loss for every pack but the cigarette companies make a net profit on every pack sale.
- Company profits per pack equal what they gain, free and clear, after paying for all their costs associated with producing and marketing the cigarettes they sell. On the flip side, the state's "profit" (or loss) per pack equals the state's cigarette tax revenues minus the state's cigarette caused health costs. Every state has a per-pack loss.
- Even if you were to unfairly include tobacco settlement payments when determining state revenues or profit/loss per pack, the state is still running at a loss.
- Cigarette companies are able to take a big "business expense" tax deduction for all of their tobacco settlement payments, which reduces their taxes by at least \$1.0 to \$1.5 billion per year (also increasing their per-pack profits, as well).
- Total state tobacco revenues per pack sold in the state are almost always less than the cigarette companies' total revenues per pack. The major cigarette companies currently receive more than \$2.10 per pack in gross revenues.
- Florida is currently receiving only 33.9 cents in cigarette tax per pack gross revenues, while spending an estimated \$10.14 in state smoking costs per pack sold. This means while **the state of Florida operates at a net loss of \$9.81 per pack sold**, the big cigarette companies profit from each and every sale.
- Wall Street Analysts and other experts say the major companies' profits per pack range from 28 to 46 cents per pack.

Myth: A cigarette tax increase in Florida might negatively affect the H. Lee Moffitt Cancer Center & Research Institute.

- Representative Waldman's filed bill (HB 11) does not detrimentally affect the funding level or mission of the Moffitt center in any manner whatsoever.
- The language in a proposed cigarette tax bill by Senator Deutch restores \$15 million of revenue set to expire and ensures that this funding source for the Moffitt center will continue beyond December 31, 2008.

Myth: Cigarette tax increases do not provide a reliable source of future state revenue.

- After the increase, state cigarette tax revenues sharply increase and then slowly decline because of state smoking declines -- but those declines will be gradual and completely predictable. There will be no surprises.
- State tobacco tax revenues are more predictable and stable than state income tax or corporate tax revenues, which can decline sharply because of unexpected economic recessions.
- A state could easily compensate for the slow and predictable tobacco tax revenue declines by periodically increasing its tobacco tax rates, or instituting an automatic inflation adjustment to its tobacco tax rates
- Along with the small, gradual declines in cigarette tax revenue caused by smoking declines, the state will also be accruing significant reductions to its smoking-caused costs. **Over time, these savings will more than make up for any cigarette tax revenue reductions.**

Myth: Cigarette tax increases will promote cigarette smuggling, black markets, and smoker tax avoidance, which will eliminate state revenue gains.

- Every single state that has significantly increased its state cigarette tax rate has enjoyed substantial increases in state revenue – despite the consumption declines prompted by the tax increase and despite any related tax avoidance. The increased new revenue the state receives on each pack sold in the state greatly outweighs the revenue losses from fewer packs being sold.
- There are simple, well-known, often low-cost, steps the state can take to minimize any loss of revenue from cigarette smuggling or smoker tax avoidance -- and state support for comprehensive federal anti-smuggling and tobacco-internet legislation would further reduce any such revenue losses.
- States can take easy steps to maximize new cigarette tax revenues by minimizing pre-increase hoarding and related revenue problems. First, state should be sure to apply the cigarette tax increase to all cigarettes held in wholesaler or retailer inventories on the effective date of the increases. Second, states should provide as little lead time as possible between the date the tax increase is passed and its actual effective date. Finally, states should ensure that any wholesaler or distributor tax-stamp discounts based on a percentage of the state tax rate are adjusted to account for the increase.

Myth: Cigarette tax increases do not reduce youth smoking (or any smoking).

- The cigarette companies have repeatedly asserted and acknowledged, both publicly and in internal company documents disclosed in tobacco lawsuits, that raising cigarette prices through state tobacco tax increases or other means significantly reduces smoking, especially among kids and lower-income communities. That fact is also well established by scientific research and by the actual experiences of states that have raised their tax.
- A related new cigarette company argument is that tax evasion by current smokers after cigarette tax increases is now a much bigger problem than previously and that cigarette tax increases therefore do not produce the same smoking declines as they have in the past. It is important to note that this argument acknowledges that cigarette tax increases have and still do prevent and reduce smoking rates. The smokers most likely to quit or cutback after cigarette tax increases – such as youth smokers, those already trying or planning to quit, and light or occasional smokers are also the least likely to take any extra steps (other than quitting or cutting back) to try to evade the cigarette tax increase.

Myth: Cigarette tax increases will hurt the state's economy by reducing cigarette sales and related employment, retailer revenues, etc.

- Money spent on cigarette sales will not disappear when cigarette sales decline, it will simply shift to consumer expenditures on other products or to consumer savings or investments. Smokers who quit or cutback will spend or use the money they formerly spent on cigarettes in other ways – and those alternative uses are likely to produce more jobs and more productive economic activity. Shifting consumer expenditures on cigarettes to other products tends to keep the money in the state, where it will generate new jobs and other beneficial economic activity.
- A study of retailer gross revenues by the State of Maryland's Comptroller after that state's recent cigarette tax increase found that "When all taxable sales throughout the entire study area for retailers typically selling

cigarettes are examined, however, there is no evidence that the increase in tobacco taxes has had a direct and measurable impact on gross revenues."

- State-specific economic impact studies in New Hampshire, Texas, and Virginia found that substantial cigarette tax increases in those states would actually increase total state employment – and that reduced cigarette sales have, historically, been linked with increased state retail employment.
- The cigarette tax increase will reduce direct public and private smoking-caused costs, which will further strengthen and improve the state's economy – especially since those savings will, overall, be shifted to much more productive uses.
- The CDC estimates that productivity losses caused by smoking amount to more than \$82 billion per year – and that total does not even include business losses from cigarette smoke breaks or from workers being less productive when on the job because of smoking caused health problems.

Myth: Cigarette tax increases will hurt the state's tobacco farmers.

- Even eliminating all smoking in any particular state would have only a very minor impact on the overall demand for American-grown tobacco leaf. Smoking by U.S. citizens accounts for less than half of the total demand for U.S. tobacco leaf, which is also smoked worldwide in cigarettes exported from the U.S. and manufactured overseas.

Myth: Cigarette tax increases will reduce the state's tobacco settlement payments.

- There is no automatic offset that reduces tobacco settlement payments to the state if the state increases its cigarette taxes. (There was such an offset for certain federal cigarette tax increases, but that provision expired in 2002.)
- The "volume adjustment" in the state tobacco settlement agreements reduces settlement payments to the states based on reductions in the nationwide (not state) cigarette sales of the major cigarette companies. The reduction in pack sales prompted by the cigarette tax increase proposed in the state would have only a miniscule impact on those nationwide sales, and an even smaller impact on the state's settlement payments.

Myth: Cigarette tax increases will reduce state revenues by eliminating or reducing state cigarette sales to smokers in other states (e.g., it will reduce cross border sales, reduce sales to interstate smugglers, eliminate state as source for internet sales).

- States will enjoy substantially more state revenues from increasing their state cigarette tax rate than they will lose from any corresponding reduction to their sales to cigarette smugglers, law-breaking internet sellers, or tax-avoiding shoppers from other states. In many cases the new state revenues from the cigarette tax increase will not only exceed current state tax revenues from sales to out-of-state buyers but also exceed all retailer profits from those sales to out of state buyers.
- Low tax states should not support the in-state sale of cigarettes to illegal smugglers, internet sellers, or tax-avoiding shoppers from other states. By raising their cigarette tax rates, states can reduce or eliminate the illegal profit margins from these illegal activities, thereby reducing these illegal activities.

Myth: Cigarette tax increases will not save money because a smoker dying early reduces state costs.

- The average smoker actually has significantly higher total lifetime healthcare costs than the average nonsmoker, even though the average smoker dies a lot sooner than the average nonsmoker.

Myth: What's next, raising taxes on fatty foods? Raising cigarette tax is just the first step in public health plan to tax everything that is bad for you.

- There is **absolutely no consumer product** or category of consumer product **other than cigarettes and tobacco products** that, *when used as directed*, inevitably causes disease, disability, and death and enormous social and economic costs.
- There is also no consumer product or category of consumer product other than cigarettes and tobacco products that, as actually used by consumers, directly causes as much disease, disability, and death and enormous social and economic costs
- Smoking kills many more people each year than alcohol, illegal drugs, murder, suicide, accidents, and AIDS, combined.