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Increasing Georgia's Low Cigarette Tax Would Yield Public Health Benefits

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Summary

With one in five adult Georgians and 19 percent of Georgia's high school students considered cigarette smokers, Georgia fails to meet the national Healthy People 2010 objectives for decreasing smoking prevalence. Georgia spends \$1.8 billion annually on direct medical expenditures associated with tobacco smoking; lost productivity costs the state an additional \$3.3 billion from morbidity and mortality. In light of these costs, cigarette tax increases have been used in other states as a public health tool to lower smoking. A 10 percent increase in the real price of cigarettes has been shown to reduce short-term consumption by 2 to 5 percent among adults and 6 percent or more among youth.

- **Recommendation:** Increase Georgia's cigarette tax by \$1 per pack. An estimated 62,800 adult smokers would quit and 114,100 fewer youth would start smoking. Long-term health savings associated with this tax increase are estimated to be \$2.6 billion.

Introduction

The first Surgeon General's Report on Smoking and Health was issued in 1964 and specifically outlined the deleterious health consequences of tobacco use, holding cigarette smoking responsible for a mortality rate for smokers 70 percent higher than that of nonsmokers. It also estimated that average smokers had a nine- to ten-fold risk of developing lung cancer compared to nonsmokers, and heavy smokers had at least a twenty-fold risk. The risk rose with the duration of smoking and diminished with the cessation of smoking. This first official report also named cigarette smoking as the most important cause of chronic bronchitis and pointed to a correlation between smoking and emphysema, and smoking and coronary heart disease.¹ Since 1964, the Surgeon General has issued a new report almost every year with confirmations and expansions on the initial findings. Two reports – one in 1969 and another in 1980 – featured the unique harmful health consequences of smoking among pregnant women, while the 1979 report focused on the heightened concerns of youth smoking. The ground-breaking 1988 report concluded that cigarette smoking is addictive, and the recent 2006 report highlighted the pervasive dangers of secondhand smoke.

Despite over four decades of research and scientific reports identifying the harmful effects of smoking, about one in five Georgia adults and nearly 19 percent of high school-age youth are still considered smokers today.² According to the Centers for Disease Control and Prevention (CDC), Georgia is home to about 1.3 million adult smokers.³ Georgia's high smoking prevalence at all ages fails to approach the national public health objectives known as Health People 2010, which

seeks to decrease the national percentage of tobacco use to 12 percent for adults and 16 percent for adolescent smokers.⁴

One method of moving toward those smoking cessation goals is through cigarette tax increases. While cigarette taxes are not the optimal tax policy tool, they do carry significant health policy benefits due to the tax's ability to discourage smoking. The following report provides an overview of the public cost of smoking, as well as the health and revenue impacts of raising Georgia's cigarette taxes.

The Cost of Smoking and the Benefit of Quitting

Cigarette smoking is the leading cause of preventable death and disease in the state of Georgia.⁵ Over 10,000 adult Georgians die each year from smoking attributable deaths, including cancer, cardiovascular diseases, stroke, heart attack, and respiratory disease.⁶ These deaths represent about 17 percent of total adult deaths in Georgia, or more than one out of every six deaths. While the majority of lung cancer cases are attributed to cigarette smoking, smokers are also at significantly higher risks for cardiovascular disease, which is the state's number one killer.⁷ The uptake of smoking among adolescents is of particular concern because of long-term addiction. About 80 percent of adult smokers begin smoking before the age of 18.⁸ The CDC estimates that 184,000 of Georgia's currently living youth are projected to die pre-maturely from smoking.⁹

The health consequences of smoking go beyond the smokers themselves. A recent Surgeon General publication indicates that there is no risk-free level of exposure to secondhand smoke.¹⁰ Instead, quantifiable evidence demonstrates that secondhand smoke exposure causes disease and premature death in children and adults who do not smoke. Research also reveals that children are more likely than adults to be exposed to secondhand smoke.

Smoking-related death and disease carry a high cost, not only emotionally for the families coping with such circumstances, but also for the health system and economy at large. The direct medical costs and lost productivity attributed to tobacco smoking are significant. In 2004, healthcare spending in Georgia on direct medical costs associated with tobacco smoking totaled \$1.8 billion.¹¹ Lost productivity associated with cigarette smoking cost the state's economy an additional \$3.3 billion.

While the consequences and costs of smoking are often severe, smoking cessation has major and immediate health benefits for men and women of all ages. The risk of lung and other cancers, cardiovascular diseases, chronic lung disease, and heart attack all significantly decrease when individuals quit smoking.¹² Former smokers also live longer than continuing smokers. For example, persons who quit smoking before age 50 have one-half the risk of dying in the next 15 years compared with continuing smokers. Women who stop smoking before pregnancy reduce their risk of having a low birthweight baby, which can lead to other complications at birth.

Cigarette Taxes as Public Health Tool

As the dangers and costs of tobacco use have been documented extensively in the last 40 years, it follows naturally that there is a compelling state public health goal to reduce smoking prevalence. While education and outreach are common strategies to achieve this goal, more and more states are embracing increased cigarette taxes as a means to reduce smoking rates. Numerous economic studies and peer-reviewed journals have documented that cigarette price increases, most often through the tobacco excise tax, lead to significant reductions in smoking prevalence among smokers and to reductions in smoking initiation.¹³

General consensus indicates that a 10 percent increase in the real price of cigarettes can be expected to reduce overall short-term cigarette consumption by an estimated 2 to 5 percent for adults.¹⁴ Younger populations have been found to be even more sensitive to cigarette price fluctuation. With more limited financial resources and inconsistent access, youth are predicted to decrease cigarette consumption by three times that of adults, or by at least 6 percent, with every 10 percent increase in price.¹⁵ Moreover, economic models suggest that long-term responses to sustained price increases would reduce smoking consumption by double this amount at the same level of price increase.¹⁶

This higher sensitivity to price among youth stems from several causes, including income constraints and peer influence.¹⁷ Because younger smokers have less disposable income than adults, price increases may have a greater effect on youth who smoke or are considering smoking in comparison to adults. Also, peer influences have a much larger impact on youth smoking than on their adult counterparts; meaning, reductions in teen smoking due to price increases may be amplified by additional reductions due to the lower prevalence rates themselves. Reduced prevalence among both adults and teens will also limit the ready availability of cigarettes to underage smokers, especially to those youth who may have a family member who smokes.¹⁸

Cigarette consumption price sensitivity is important when considering effective public health policy interventions as a tool to prevent disease, disability, and death. Given that nearly all smoking initiation occurs by the time of high school graduation and that smoking habits become firmly established during early adulthood, interventions that aim to prevent smoking initiation are a priority. The estimates above suggest that sustained cigarette tax increases can be an effective means for achieving long-term smoking reductions across the population by first reducing the smoking prevalence of younger smokers.

Recommendation: Increase Georgia's Cigarette Taxes

On July 1, 2003, Georgia's excise tax on cigarettes increased for the first time in over 30 years, rising from 12 cents to 37 cents per pack. Taxes on cigars rose as well; and, for the first time in its history, Georgia levied taxes on smokeless tobacco products.¹⁹ In every state that has significantly raised its cigarette tax rate, pack sales have gone down sharply, generally ranging from a 5 to 15 percent drop in sales.²⁰ Between 2002, one year before the excise tax increase on cigarettes in Georgia, and 2006, three years after, cigarette sales dropped 7.8 percent.²¹ In the same years, the prevalence of Georgia's adult cigarette smokers dropped 2.3 percent.²² While the decrease in prevalence is less dramatic than sales, it is important to keep in mind two points: (1) decreasing sales demonstrates that smokers are significantly cutting back on consumption even if they choose not to quit, and (2) cigarette price increases must be sustained over time.

In spite of those advances, Georgia's 2006 average number of adult (19.9 percent) and adolescent (18.6 percent) cigarette smokers does not meet the national Healthy People 2010 objectives.²³ While Georgia continues to have a high prevalence of smoking, the state remains a low tax state for cigarettes, as shown in the Appendix Table. Georgia's 37 cents per pack ranked 43rd in 2007, well below the average state tax of \$1.11 per pack.²⁴

With an estimated 1.3 million adult smokers in Georgia and some of the lowest tobacco taxes in the nation, Georgia should consider using a cigarette tax increase as a public health tool to lower smoking. A \$1 per pack increase in Georgia's cigarette tax would likely have a significant impact on both adult and youth smoking rates in Georgia and would yield public health benefits as a result of expected smoking prevalence declines.

Health Impact of Recommended Increase

Because of the consumption declines that follow price increases, any increase in cigarette excise taxes will have some positive impact on health outcomes. Most notably a reduction in the number of youth who start smoking would lead to a reduction in the number projected to die from smoking-related disease. In addition, health benefits such as fewer hospitalizations from asthma, a decrease in heart disease and strokes, and an increase in the number of infants born at healthy weights can be expected from lowered smoking prevalence.

| Table 1: Impact from Projected \$1 Increase of Cigarette Tax | | | |
|---|-----------------------------------|---|---------------------------------|
| Number of Current Adult Smokers Who Would Quit | Fewer Future Youth Smokers | Number of Youth Alive Today Saved From Early Smoking Death | Long Term Health Savings |
| 62,800 | 114,100 | 36,500 | \$2,593.4 million* |
| *All savings are in 2004 dollars. Source: Tobacco Free Kids, February 2008 | | | |

A proposed excise tax increase of \$1.00 in Georgia is estimated to lower the number of future youth smokers by 114,100 and save 36,500 youth from early smoking-related deaths.²⁵ Additionally, a projected 62,800 fewer adults will be considered smokers. Although smoking-caused healthcare cost savings from a cigarette tax increase will be relatively small in the first year after an increase, the savings grow quickly. The estimated 5-year savings in Georgia from strokes and pregnancy-birth complications are \$29.6 million and \$20.3 million, respectively. The projected healthcare savings from reducing the number of youth and adult smokers accrue over the lifetime of kids and adults who quit or do not start due to the tax increase and exceed \$2.6 billion in long-term savings.

These projections are based, in part, on research findings that a 10 percent cigarette price increase reduces youth smoking rates by 6.5 percent or more, adult rates by 2 percent, and total consumption by 4 percent.²⁶ The price increase is assumed to be maintained against inflation over time, which is not what current Georgia legislation proposes. These elasticity findings are adjusted downward to be conservative and to account for some smokers avoiding the price increases through a range of tax evasion strategies. Smokers' lifetime healthcare costs are higher than nonsmokers, despite shorter life spans; however, the savings for each adult quitter are less than that because adult smokers have already been significantly harmed by their smoking and have already incurred smoking-caused health costs.²⁷

Revenue and Budget Impact of Recommended Increase²⁸

The health benefits of a cigarette tax increase are considerable, and the revenue gains can be sizeable as well. Based on a Georgia-specific revenue model, the Institute on Taxation and Economic Policy estimates that a \$1.00 per pack increase would generate an additional \$500 million in state revenues.²⁹ While the revenue benefits can be substantial, cigarette taxes are a flawed revenue tool from a tax policy perspective. Not only are cigarette taxes regressive, meaning they fall more heavily on low-income individuals, but they also represent a declining revenue stream that, if used inappropriately, can contribute to structural deficits.³⁰

The major problem with the tax on cigarettes is its regressive nature. Like any consumption tax, cigarette taxes take a higher share of income from low and middle income households than from upper income households. Table 2 demonstrates this drawback to the cigarette tax by showing the distribution of a \$1.00 per pack increase across income groups. As shown in Row A, those taxpayers in the lowest 20 percent of incomes, who have an average income of \$9,000, would

| 2006 Income Group | Lowest 20% | Second 20% | Middle 20% | Fourth 20% | Next 15% | Next 4% | Top 1% |
|--------------------------------------|--------------------|---------------------|---------------------|---------------------|----------------------|-----------------------|---------------------|
| Income Range | Less Than \$15,000 | \$15,000 – \$26,000 | \$26,000 – \$44,000 | \$44,000 – \$74,000 | \$74,000 – \$151,000 | \$151,000 – \$410,000 | \$410,000 – Or More |
| Average Income | \$9,000 | \$20,000 | \$34,000 | \$56,000 | \$101,000 | \$222,000 | \$1,239,000 |
| (A) Average Tax Change | \$75 | \$96 | \$108 | \$115 | \$111 | \$135 | \$161 |
| (B) Tax Change as % of Income | +0.8% | +0.5% | +0.3% | +0.2% | +0.1% | +0.1% | +0.0% |

Source: Institute on Taxation and Economic Policy, January 2008

experience an average tax increase of \$75, while taxpayers in the top 1 percent of incomes would have an average tax increase of \$161.³¹ Although the tax increase in dollar value would be lower for low-income Georgians, that increase would take a much larger share of their income. As shown in Row B, this tax increase would consume 0.8 percent of income for those in the bottom 20 percent of incomes. In contrast, the tax increase will consume only 0.01 percent of income for those with the highest incomes.

A second flaw of cigarette taxes as a revenue source is their declining nature. Because cigarette taxes are levied on a per-pack basis rather than as a percentage of the sales price, tax revenues fail to increase along with price increases or periods of economic growth. This means tax revenues associated with cigarette taxes only grow when demand increases or the tax rate increases.³² For example, consider a state with a \$0.30 per pack cigarette tax. If the price of a pack of cigarettes increases by \$1.00, the state will still only receive \$0.30 when a consumer buys a pack of cigarettes. On the other hand, if the consumer decides to buy two packs of cigarettes (i.e. demand increases), then the state receives \$0.60. While the \$1 per pack tax increase will boost revenues by an estimated \$500 million, consumption will decline in response to the higher taxes, as discussed previously. Thus, the initial revenue gains up to \$500 million will be eroded in later years as consumption declines. Since cigarette tax revenues are a declining revenue source, it is problematic when cigarette taxes are used to fund core government services, which continue to increase in cost. Using this declining revenue source to fund services that are increasing in cost can cause structural deficits, which occur when state revenue systems cannot generate the funds needed to meet current services.

Policymakers can balance these negative aspects of tobacco taxes by combining such increases with offsetting tax cuts for low and moderate income Georgians and ensuring this declining revenue source goes to one-time funding purposes.³³

The Georgia Budget and Policy Institute (GBPI) is an independent, nonprofit, non-partisan organization engaged in research and education on the fiscal and economic health of the state of Georgia. The GBPI provides reliable, accessible and timely analyses to promote greater state government fiscal accountability as a way to improve services to Georgians in need and to promote quality of life for all Georgians.

| APPENDIX TABLE: State Cigarette Taxes and Rankings, 2007 | | | |
|---|---------------------------|----------------------|------------------------------|
| State | State Tax Per Pack | National Rank | Year of Last Increase |
| Alabama | \$0.425 | 42 | 2004 |
| Alaska | \$2.00 | 4 | 2007 |
| Arizona | \$2.00 | 4 | 2007 |
| Arkansas | \$0.59 | 38 | 2003 |
| California | \$0.87 | 29 | 1999 |
| Colorado | \$0.84 | 30 | 2005 |
| Connecticut | \$2.00 | 4 | 2007 |
| Delaware | \$1.15 | 21 | 2007 |
| Washington, DC | \$1.00 | 24 | 2003 |
| Florida | \$0.339 | 46 | 1990 |
| Georgia | \$0.37 | 43 | 2003 |
| Hawaii | \$1.80 | 9 | 2007 |
| Idaho | \$0.57 | 39 | 2003 |
| Illinois | \$0.98 | 27 | 2002 |
| Indiana | \$0.995 | 26 | 2007 |
| Iowa | \$1.36 | 17 | 2007 |
| Kansas | \$0.79 | 32 | 2003 |
| Kentucky | \$0.30 | 47 | 2005 |
| Louisiana | \$0.36 | 44 | 2002 |
| Maine | \$2.00 | 4 | 2005 |
| Maryland | \$1.00 | 24 | 2002 |
| Massachusetts | \$1.51 | 13 | 2002 |
| Michigan | \$2.00 | 4 | 2004 |
| Minnesota | \$1.493 | 15 | 2005 |
| Mississippi | \$0.18 | 49 | 1985 |
| Missouri | \$0.17 | 50 | 1993 |
| Montana | \$1.70 | 11 | 2005 |
| Nebraska | \$0.64 | 35 | 2002 |
| Nevada | \$0.80 | 31 | 2003 |
| New Hampshire | \$1.08 | 22 | 2007 |
| New Jersey | \$2.575 | 1 | 2006 |
| New Mexico | \$0.91 | 28 | 2003 |
| New York | \$1.50 | 14 | 2002 |
| North Carolina | \$0.35 | 45 | 2006 |
| North Dakota | \$0.44 | 41 | 1993 |
| Ohio | \$1.25 | 19 | 2005 |
| Oklahoma | \$1.03 | 23 | 2005 |
| Oregon | \$1.18 | 20 | 2004 |
| Pennsylvania | \$1.35 | 18 | 2004 |
| Rhode Island | \$2.46 | 2 | 2004 |
| South Carolina | \$0.07 | 51 | 1977 |
| South Dakota | \$1.53 | 12 | 2007 |
| Tennessee | \$0.62 | 36 | 2007 |
| Texas | \$1.41 | 16 | 2007 |
| Utah | \$0.695 | 34 | 2002 |
| Vermont | \$1.79 | 10 | 2006 |
| Virginia | \$0.30 | 47 | 2005 |
| Washington | \$2.025 | 3 | 2005 |
| West Virginia | \$0.55 | 40 | 2003 |
| Wisconsin | \$0.77 | 33 | 2001 |
| Wyoming | \$0.60 | 37 | 2003 |

Source: Campaign for Tobacco Free Kids, <http://tobaccofreekids.org/research/factsheets/pdf/0099.pdf>

Endnotes

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