

tobacconomics

Economic Research Informing Tobacco Control Policy

Commodity Taxes: Experiences with Tobacco and Alcohol Taxation

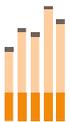
Frank J. Chaloupka, University of Illinois at Chicago

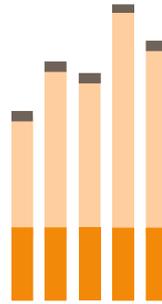
NAS Tax Policy Webinar on Commodity Taxes

April 30, 2018

Overview

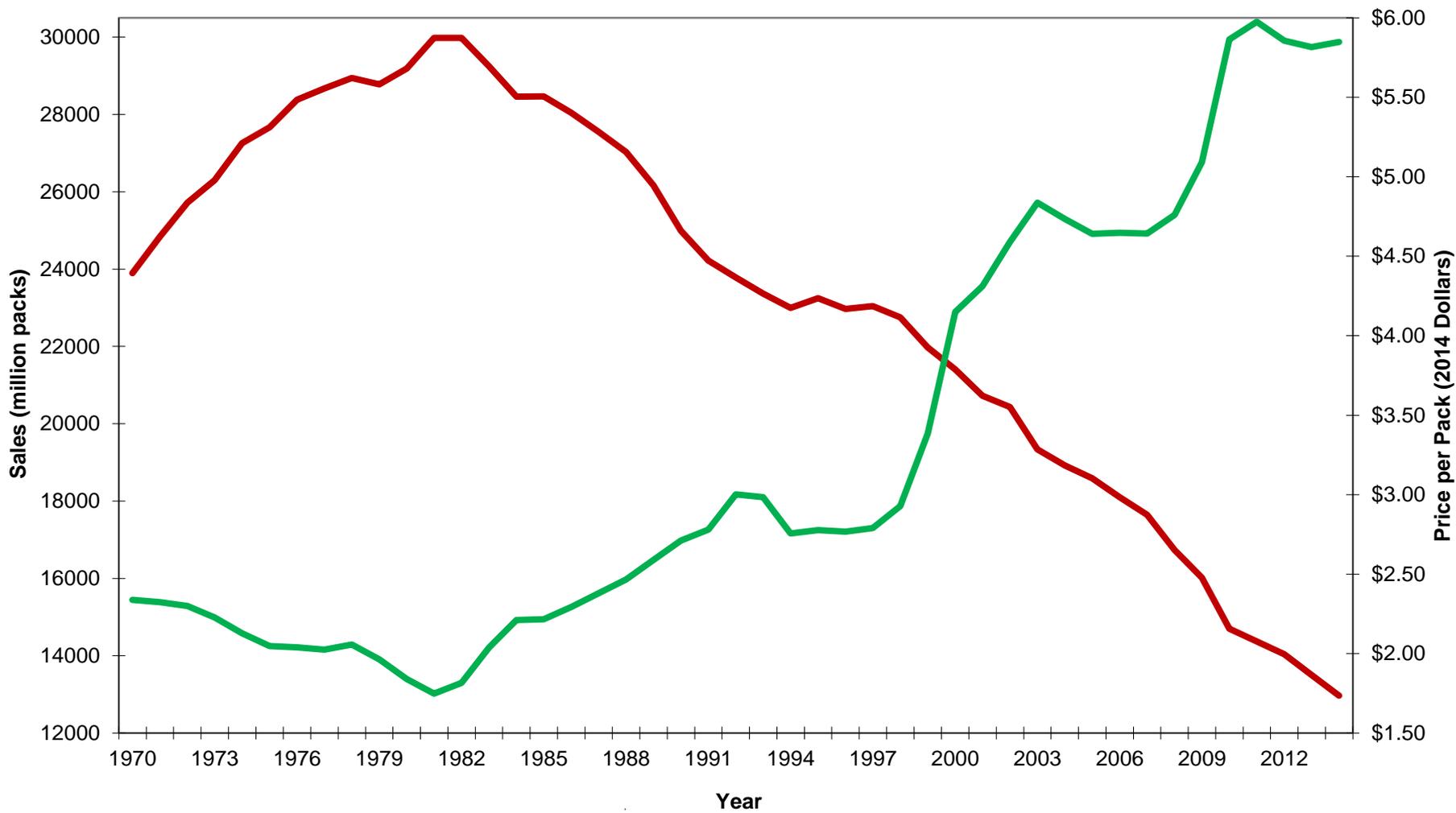
- Impact of Tobacco & Alcohol Taxes on Use and Consequences
- Comparing/Contrasting Alcohol & Tobacco Taxes
- Economic Myths & Facts





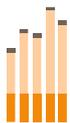
Impact of Taxes and Prices on Use & Consequences

Cigarette Prices and Cigarette Sales United States, 1970-2014

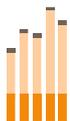
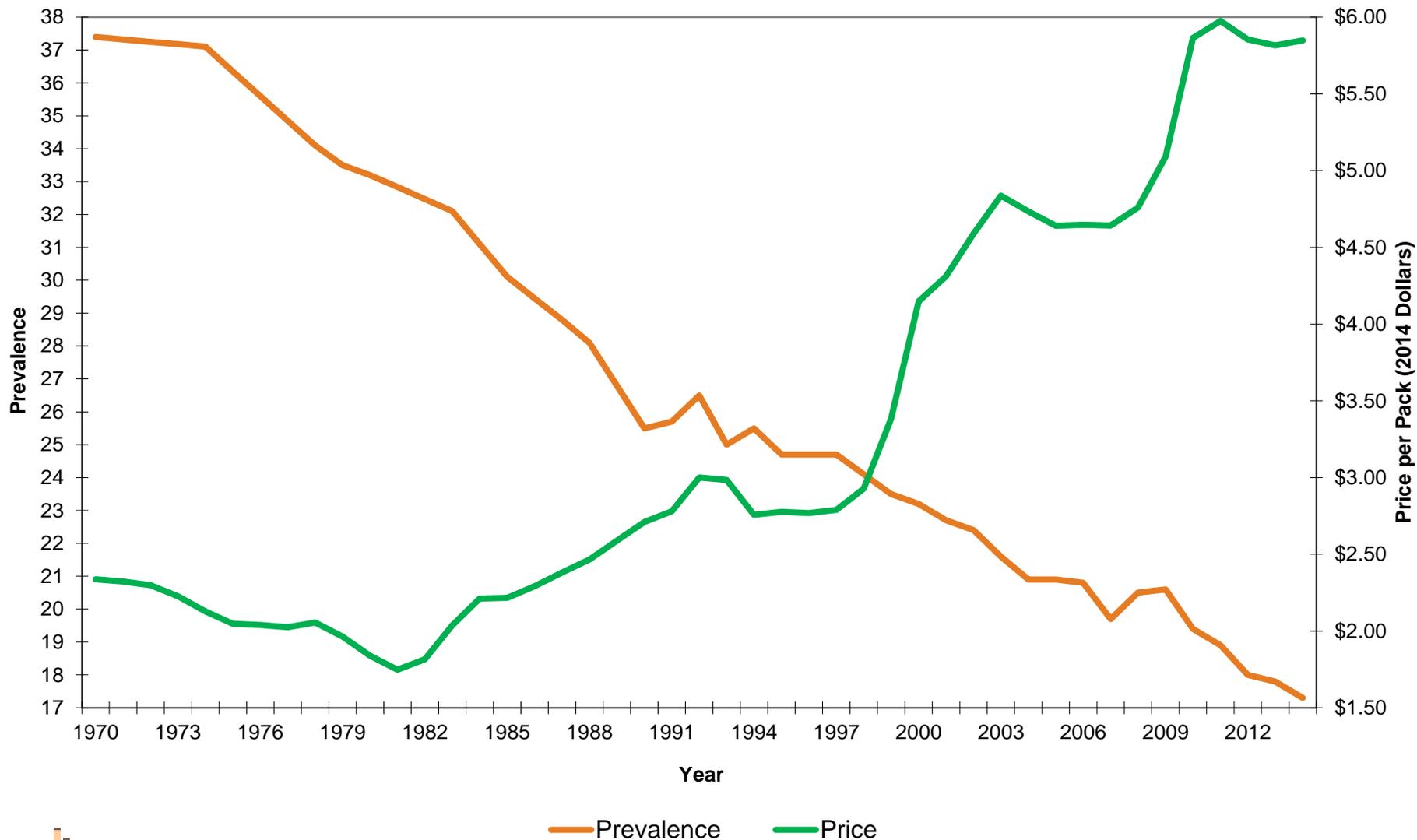


— Sales — Price

Source: *Tax Burden on Tobacco*, 2015, and author's calculations

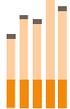
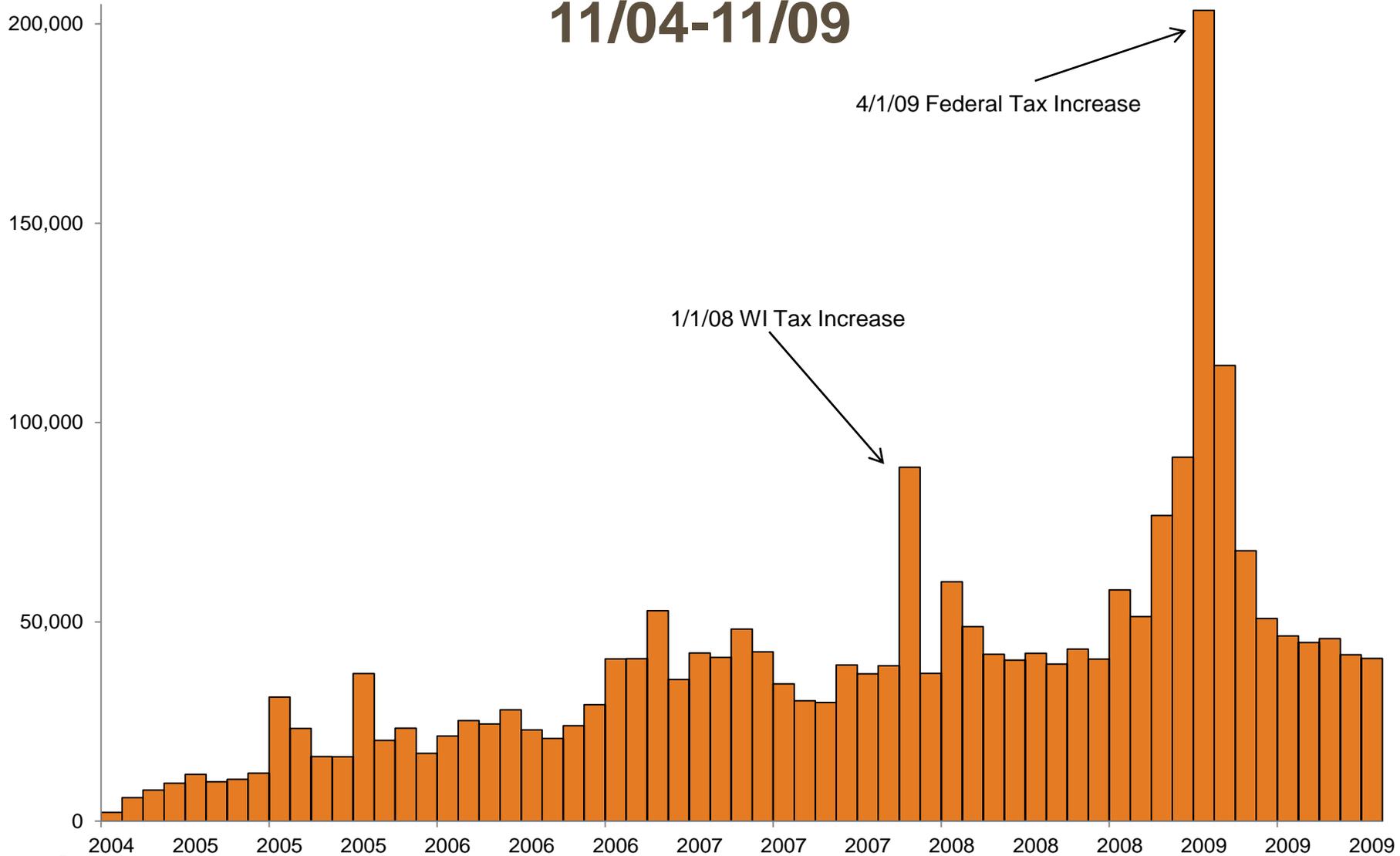


Cigarette Prices and Adult Smoking Prevalence United States, 1970-2014

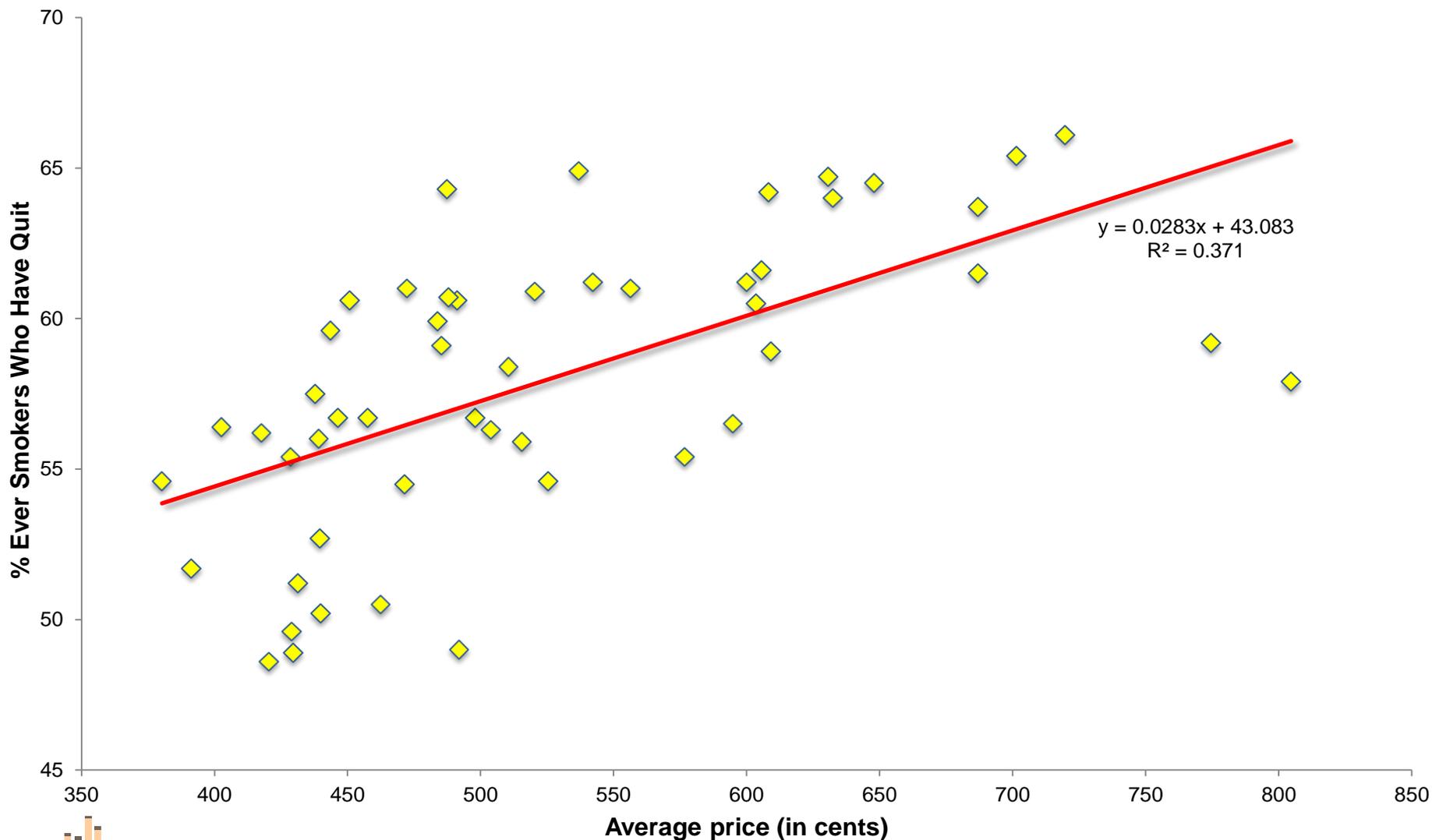


Source: NHIS, *Tax Burden on Tobacco*, 2015, and author's calculations

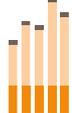
Monthly Quit Line Calls, United States 11/04-11/09



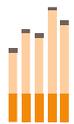
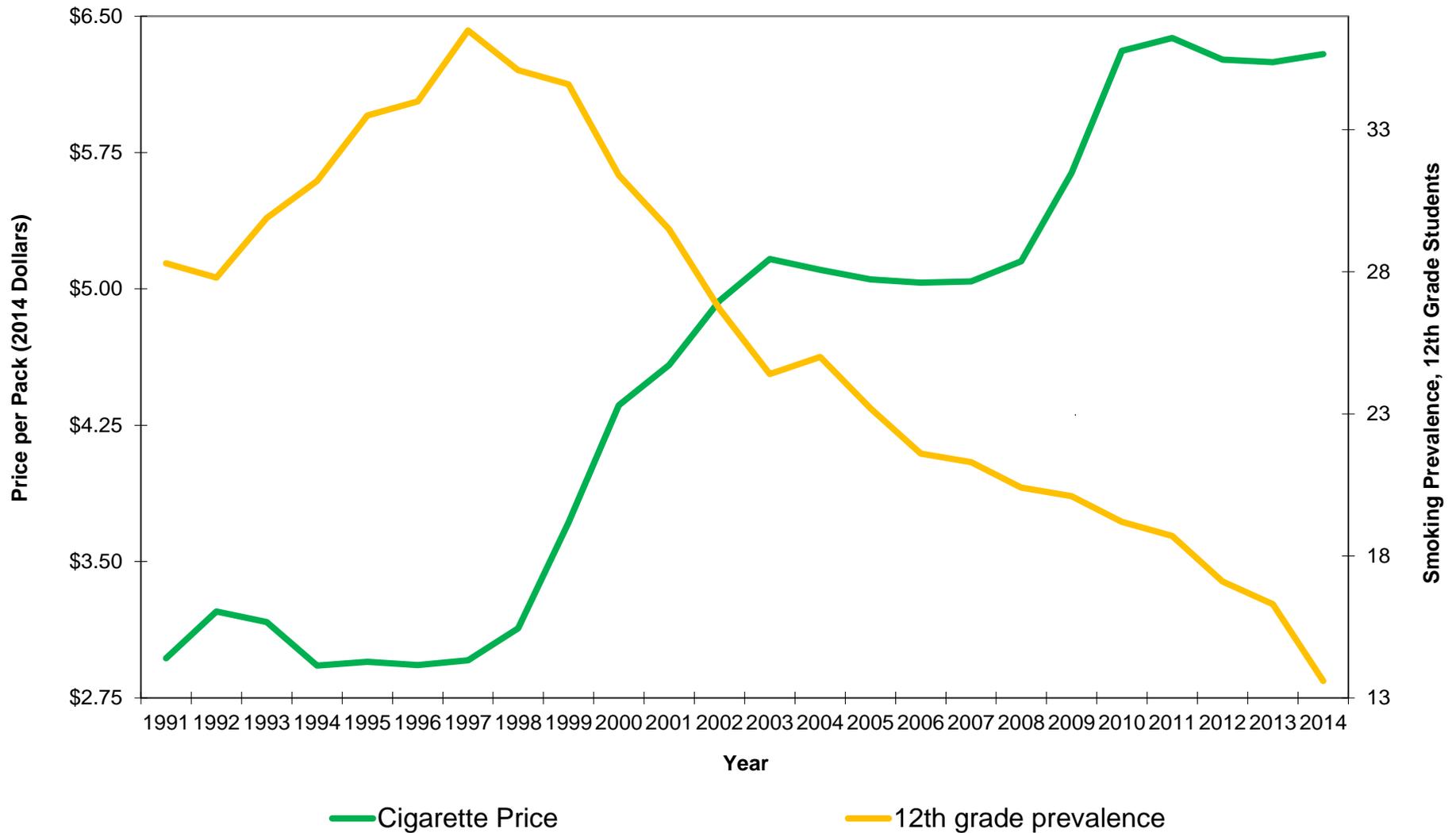
Cigarette Prices and Cessation US States & DC, 2009



Source: BRFSS, *Tax Burden on Tobacco*, 2010, and author's calculations

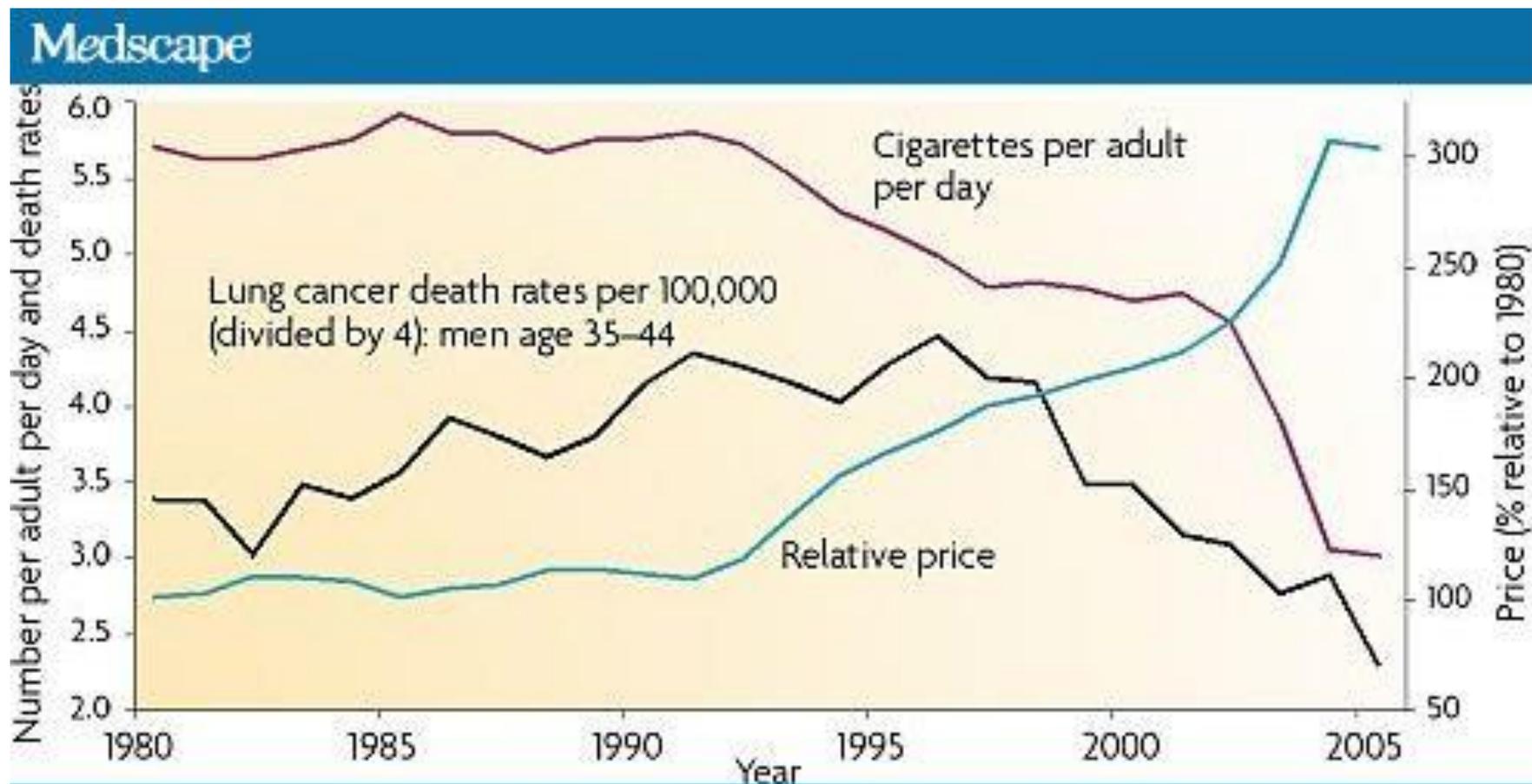


Cigarette Price and Youth Smoking Prevalence Seniors, United States, 1991-2014

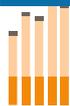


Source: MTF, *Tax Burden on Tobacco*, 2015, and author's calculations

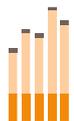
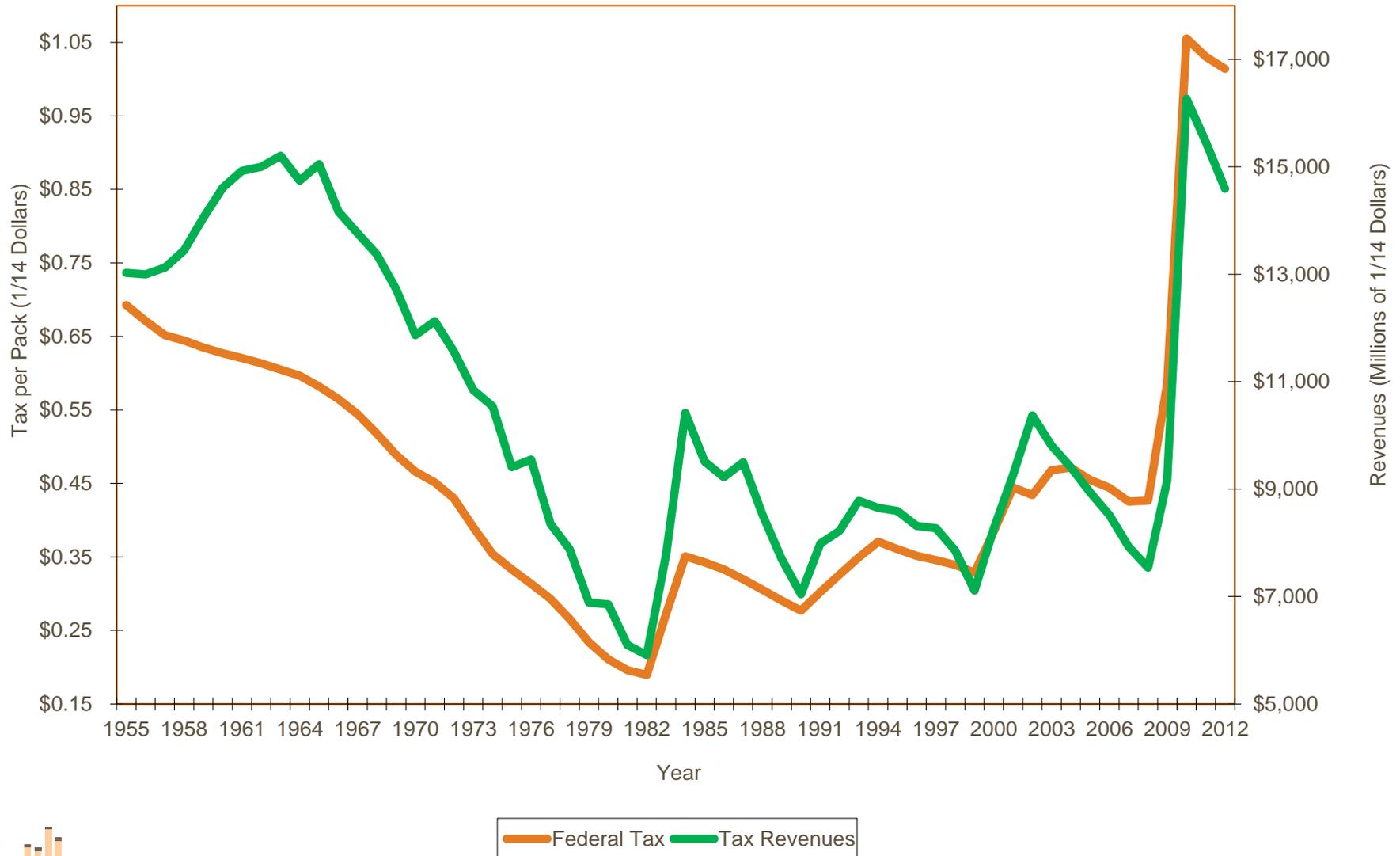
Taxes, Prices and Health: US, 1980-2005



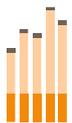
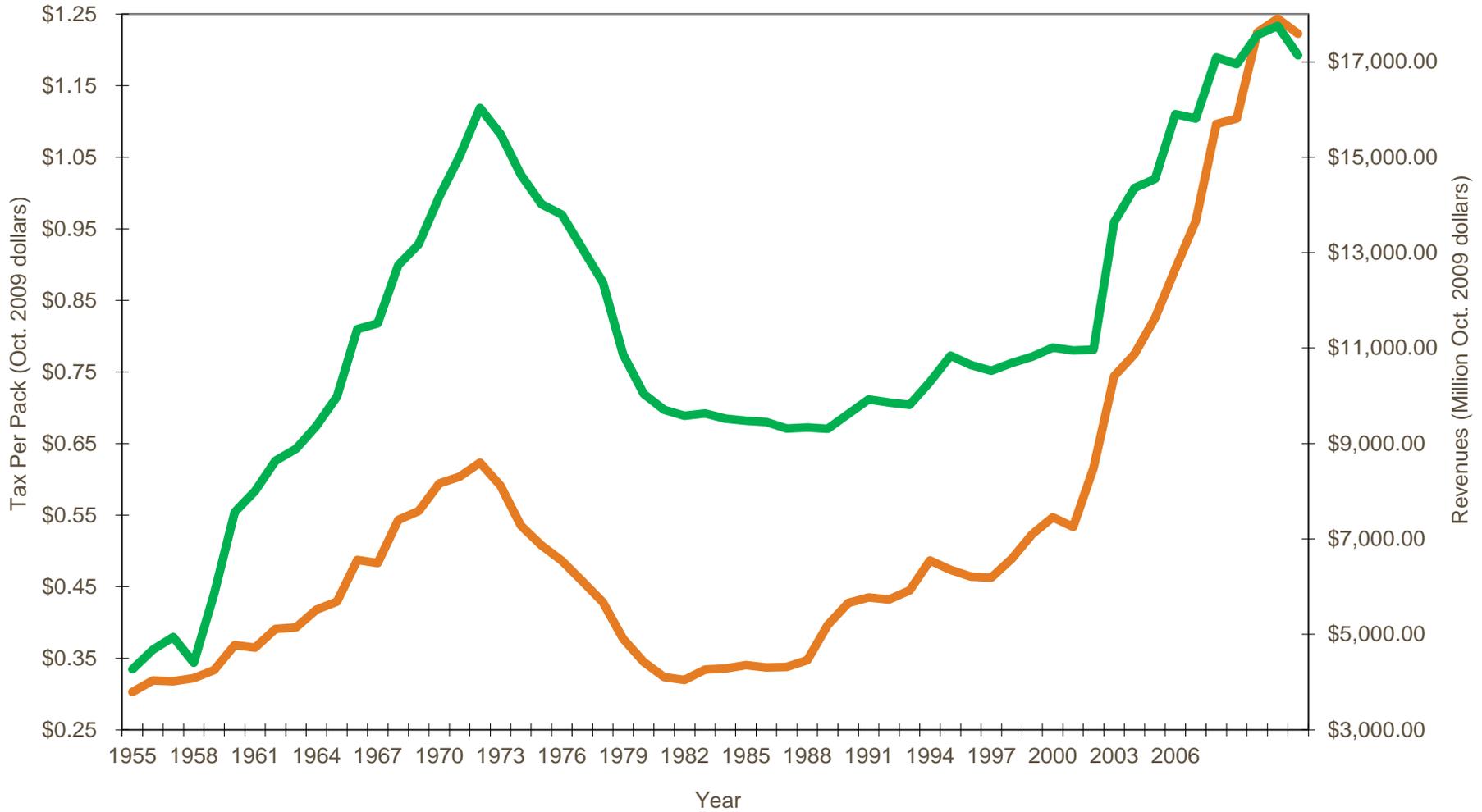
Source: Nat Rev Cancer © 2009 Nature Publishing Group



Federal Cigarette Tax and Tax Revenues Inflation Adjusted, 1955-2012

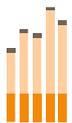


State Cigarette Taxes and Tax Revenues Inflation Adjusted, 1955-2012



— Avg. State Tax
 — Tax Revenues

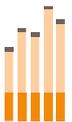
State Tobacco Control Program Funding and Youth Smoking Prevalence, United States, 1991-2009



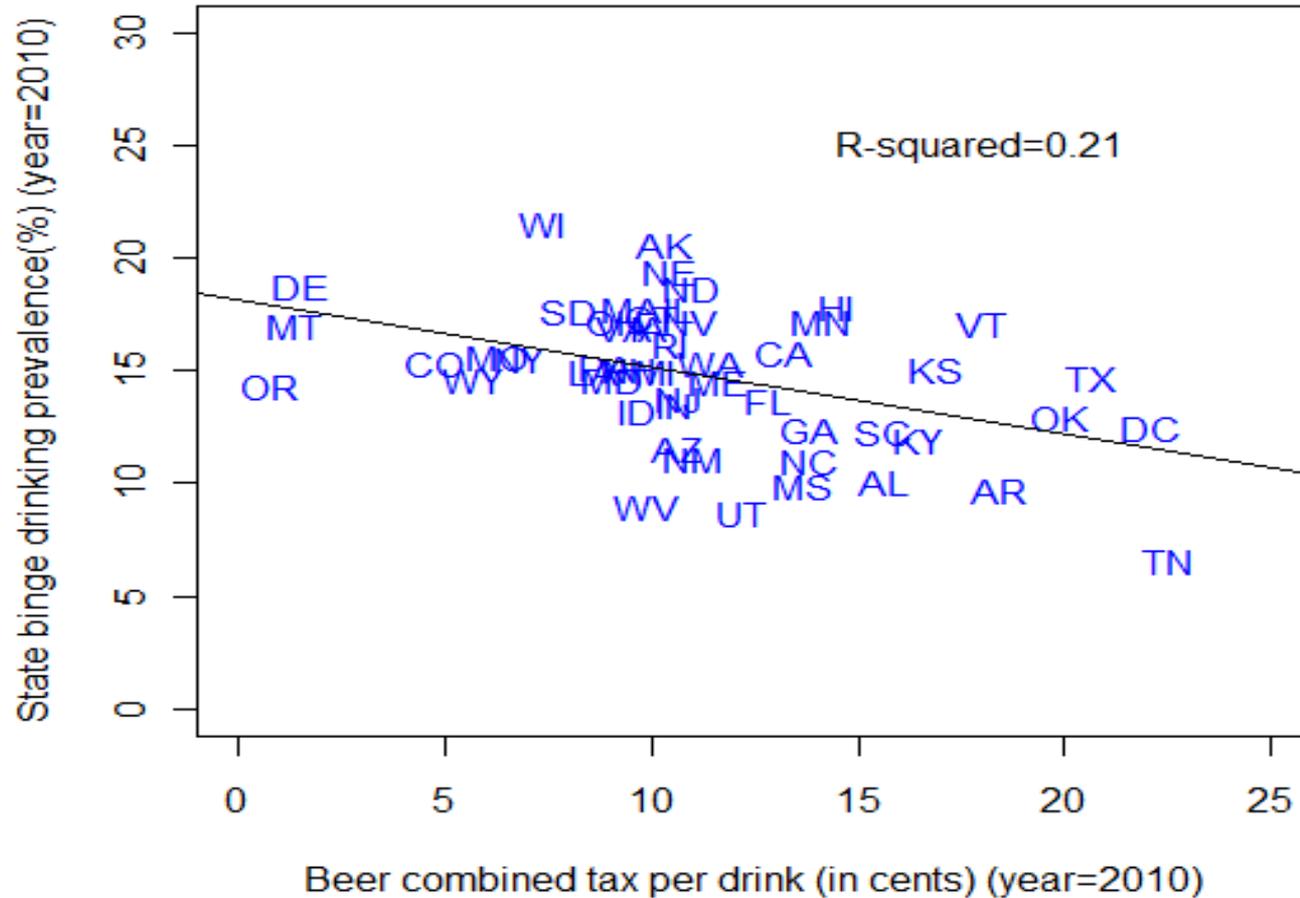
Source: ImpacTeen Project, UIC; YRBS

Alcohol Prices & Drinking

- **Extensive econometric and other research shows that higher prices for alcoholic beverages significantly reduce drinking:**
 - 10 percent price increase would reduce:
 - Beer consumption by 1.7 to 4.6 percent
 - Wine consumption by 3.0 to 6.9 percent
 - Spirits consumption by 2.9 to 8.0 percent
 - Overall consumption by 4.4 percent
 - Heavy drinking by 2.8 percent
 - Generally larger effects on youth and young adults

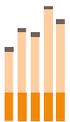


Beer Tax and Binge Drinking Prevalence US States, 2010



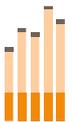
Alcohol Prices & Consequences

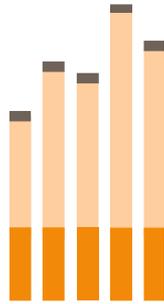
- Econometric and other research shows that higher prices for alcoholic beverages significantly reduce:
 - Drinking and driving, traffic crashes, and motor-vehicle accident fatalities
 - Deaths from liver cirrhosis, acute alcohol poisoning, alcohol-related cancers, cardiovascular diseases, and other health consequences of excessive drinking
 - Violence (including spouse abuse, child abuse, and suicide) and other crime
 - Other consequences of drinking, including work-place accidents, teenage pregnancy, and incidence of sexually transmitted diseases



Alcohol Prices & Consequences

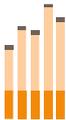
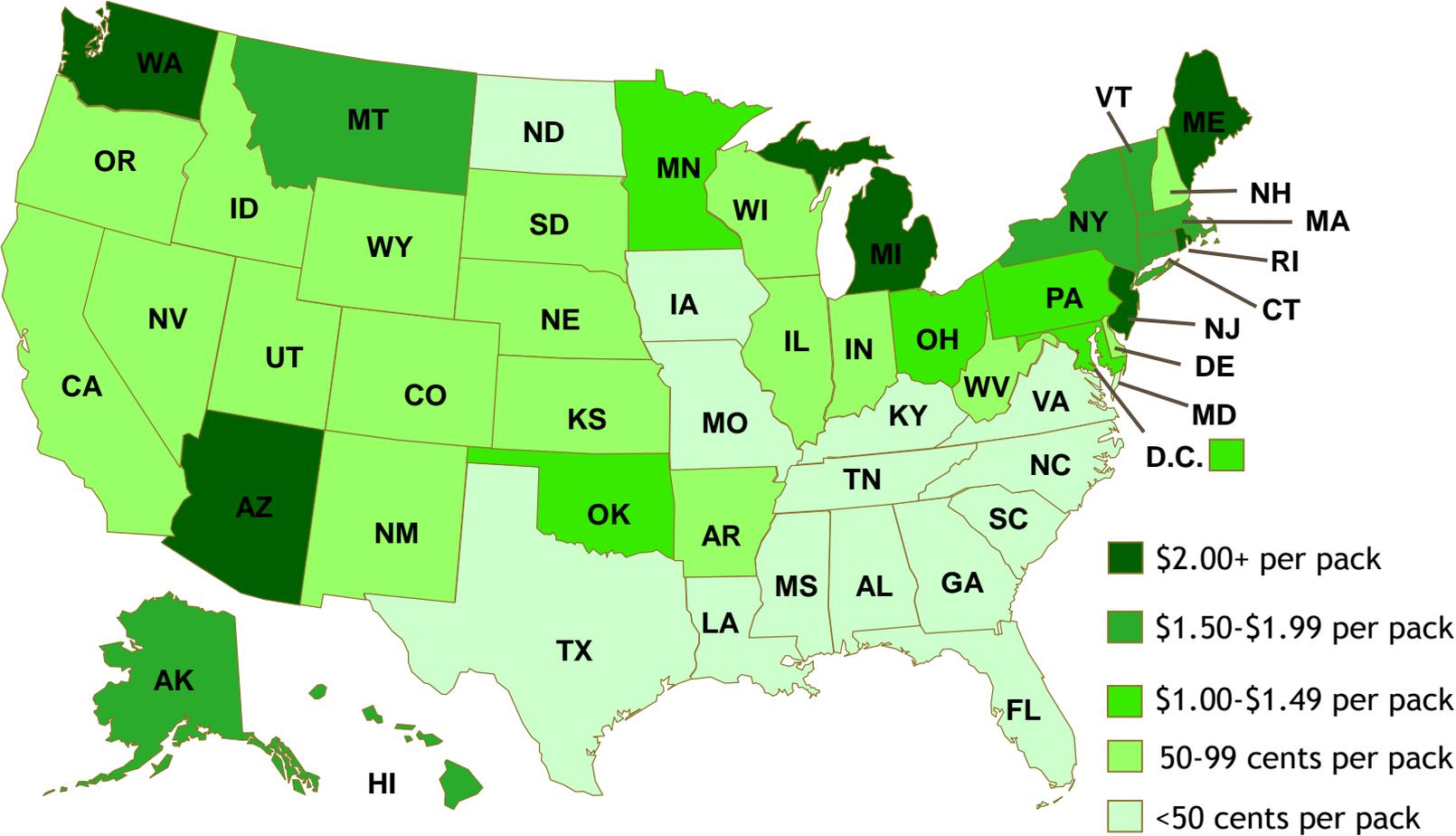
- **Recent systematic review concluded:**
 - Doubling of alcohol taxes would reduce:
 - Alcohol-related mortality by 35%
 - Traffic crash deaths by 11%
 - Sexually transmitted disease by 6%
 - Violence by 2%
 - Crime by 1.4%





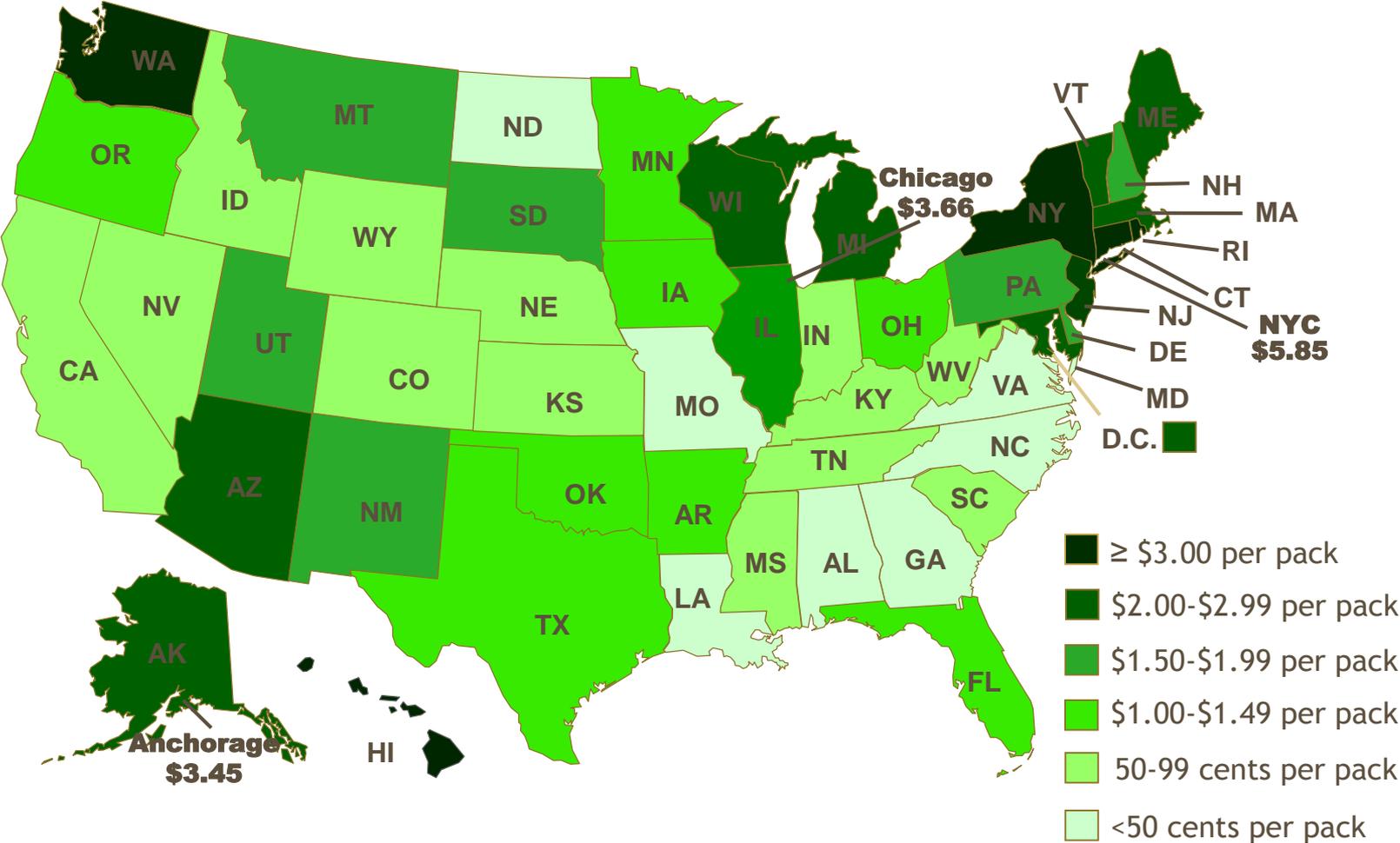
Comparing/Contrasting Tobacco & Alcohol Taxes

State Cigarette Excise Tax Rates – 2006

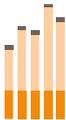


CDC, Office on Smoking and Health. State Tobacco Activities Tracking and Evaluation (STATE) System.

State Cigarette Excise Tax Rates – 2012

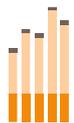
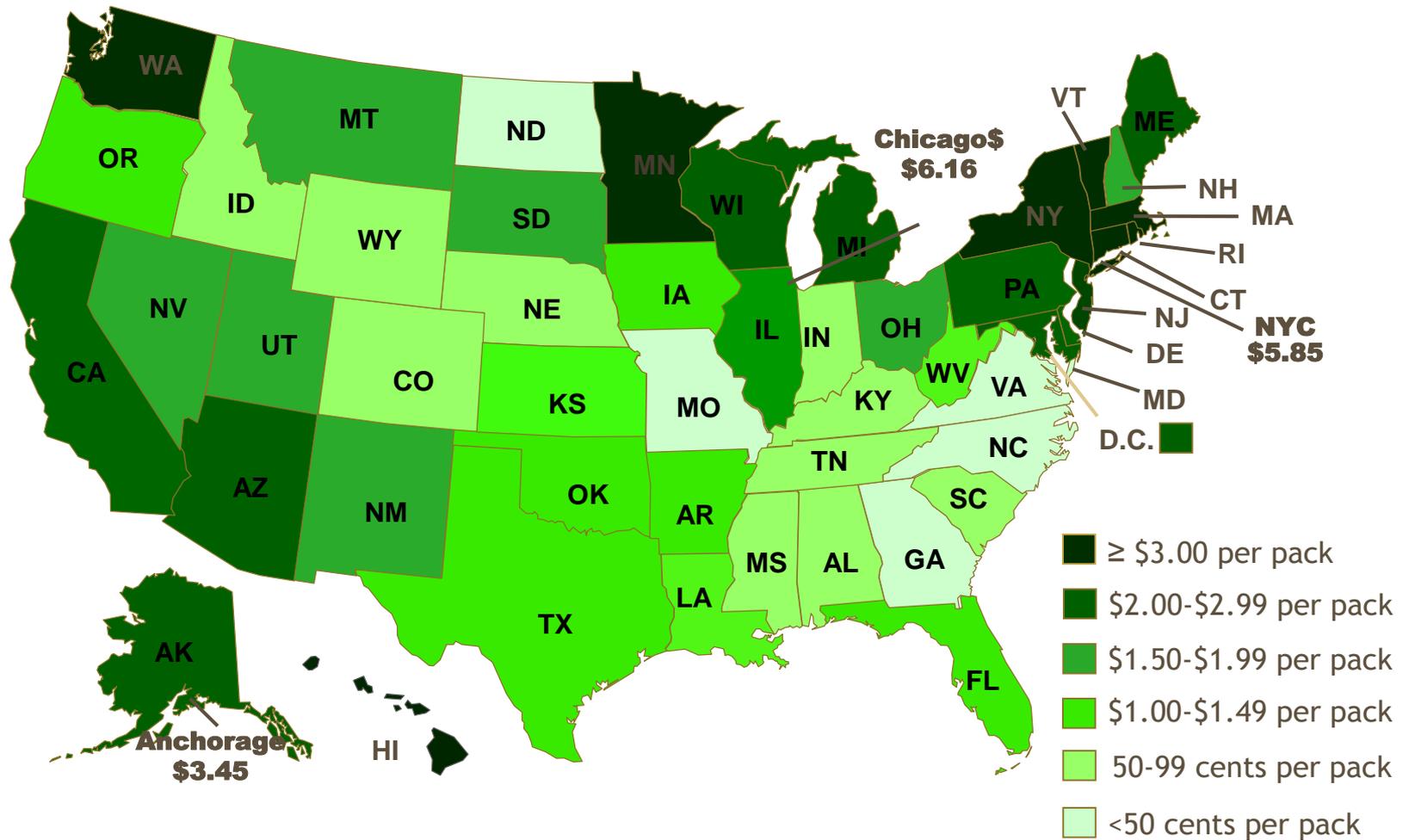


CDC, Office on Smoking and Health. State Tobacco Activities Tracking and Evaluation (STATE) System.

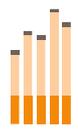
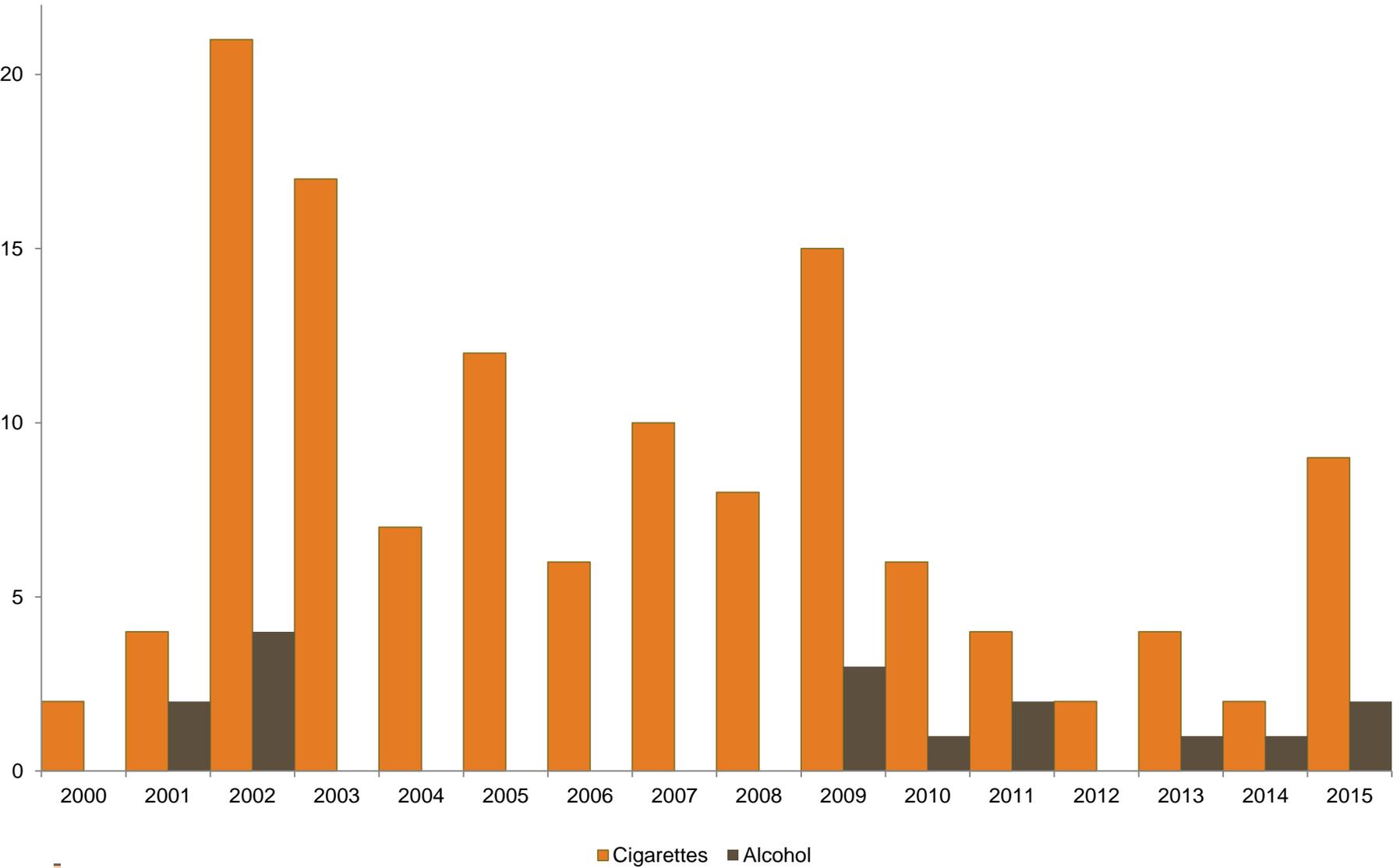


State Cigarette Excise Tax Rates

January 1, 2018

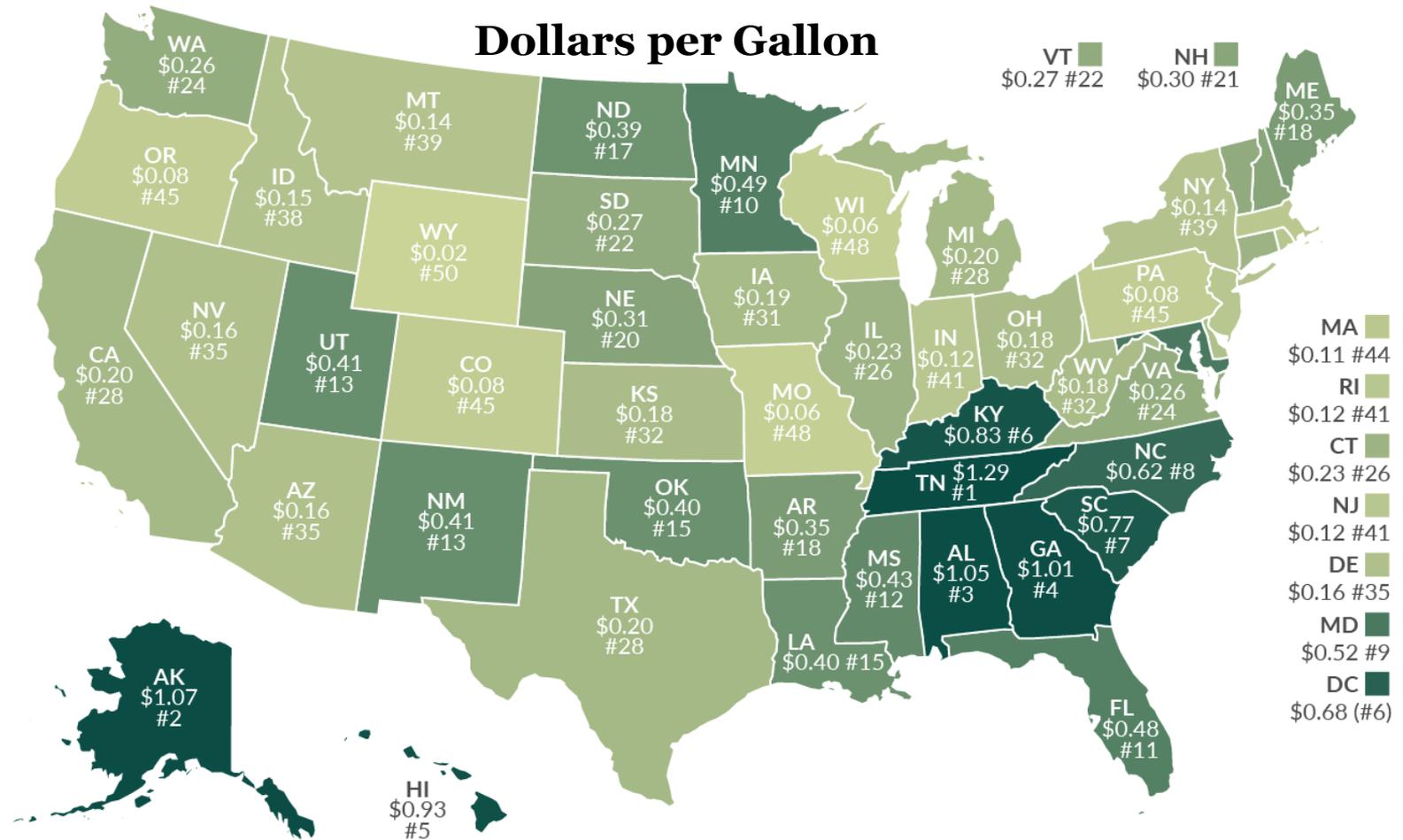


State Cigarette & Beer Tax Increases, 2000-2015

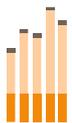
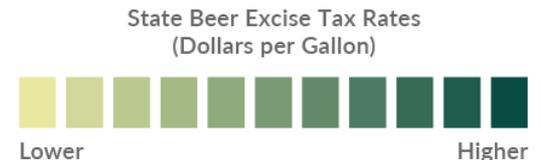


Sources: Campaign for Tobacco Free Kids; NIAAA Alcohol Policy Information System; Brewers Almanac
Note: Does not show the multiple reductions in beer taxes and the few reductions in cigarette taxes

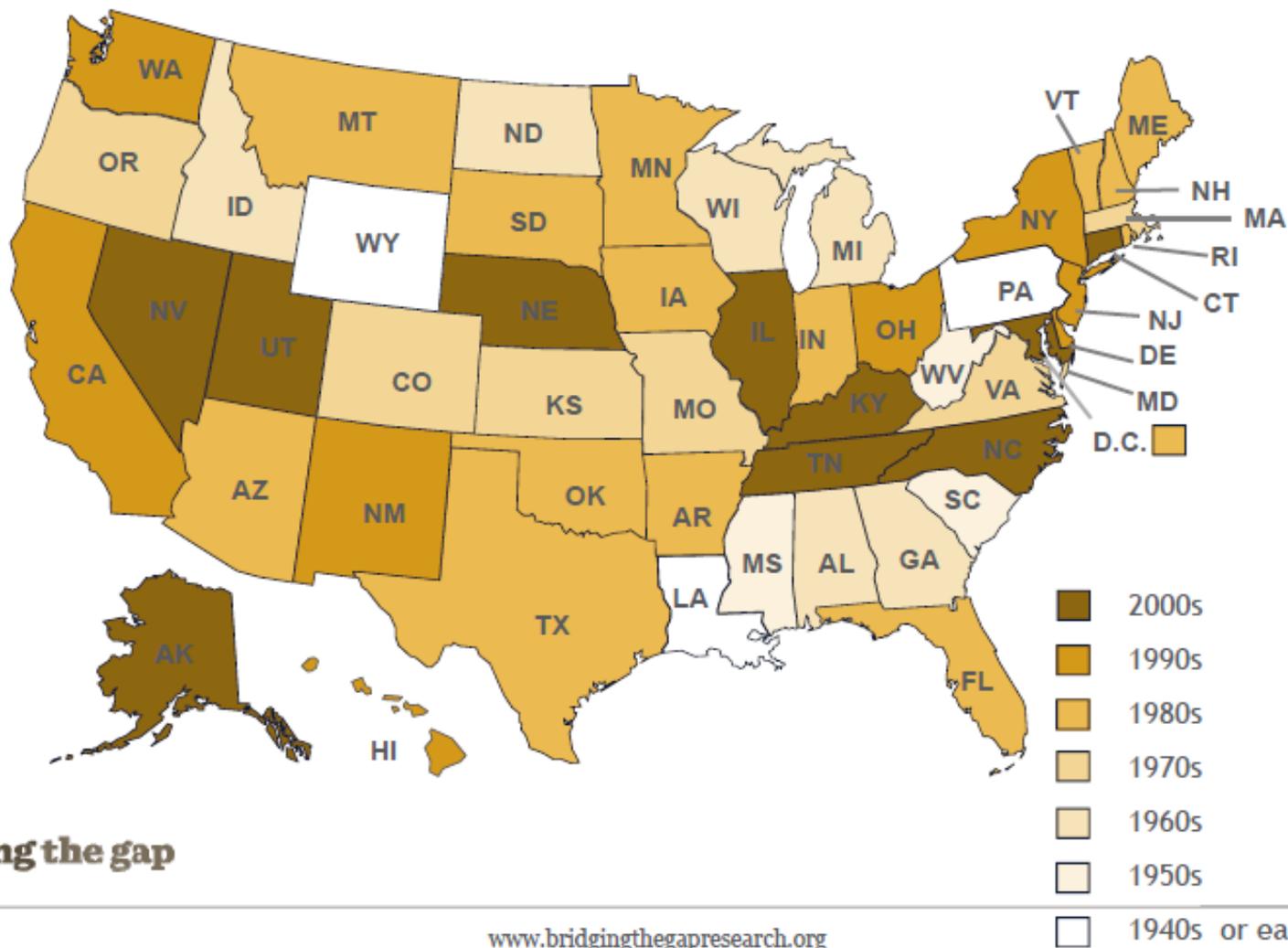
State Beer Excise Tax Rates – 2017



Note: Rates are those applicable to off-premise sales of 4.7% a.b.v. beer in 12 ounce containers. D.C.'s rank does not affect states' ranks, but the figure in parentheses indicates where it would rank if included. FL, HI, ID, IA, KS, MN, NC, ND, OH, OK, TX, UT, VA, WA, and WI also apply different rates according to alcohol content, place of production, size of container, or place purchased (on- or off-premise or onboard airlines). Statewide local rate included in AL (\$0.52) and GA (\$0.53). Sales tax specific to alcoholic beverages included in AR, MD, MN, and DC. Case fees and/or bottle fees which may vary with the size of container included in AR and RI. Wholesale tax rate converted into a gallonage excise tax rate included in KY (10.5%) and TN (17%).



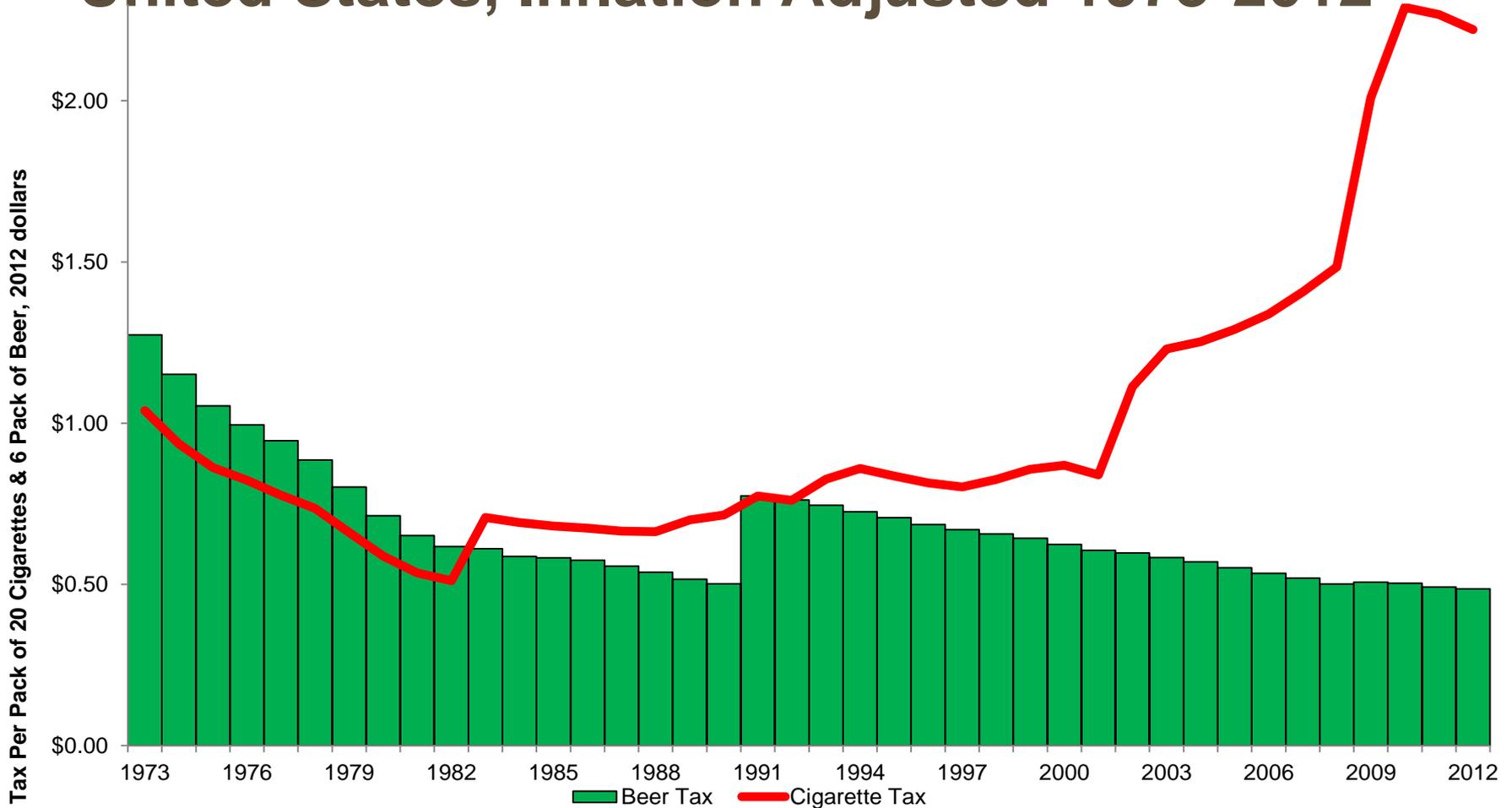
Decade of Last Permanent Beer Tax Increase



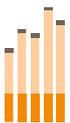
bridging the gap



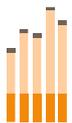
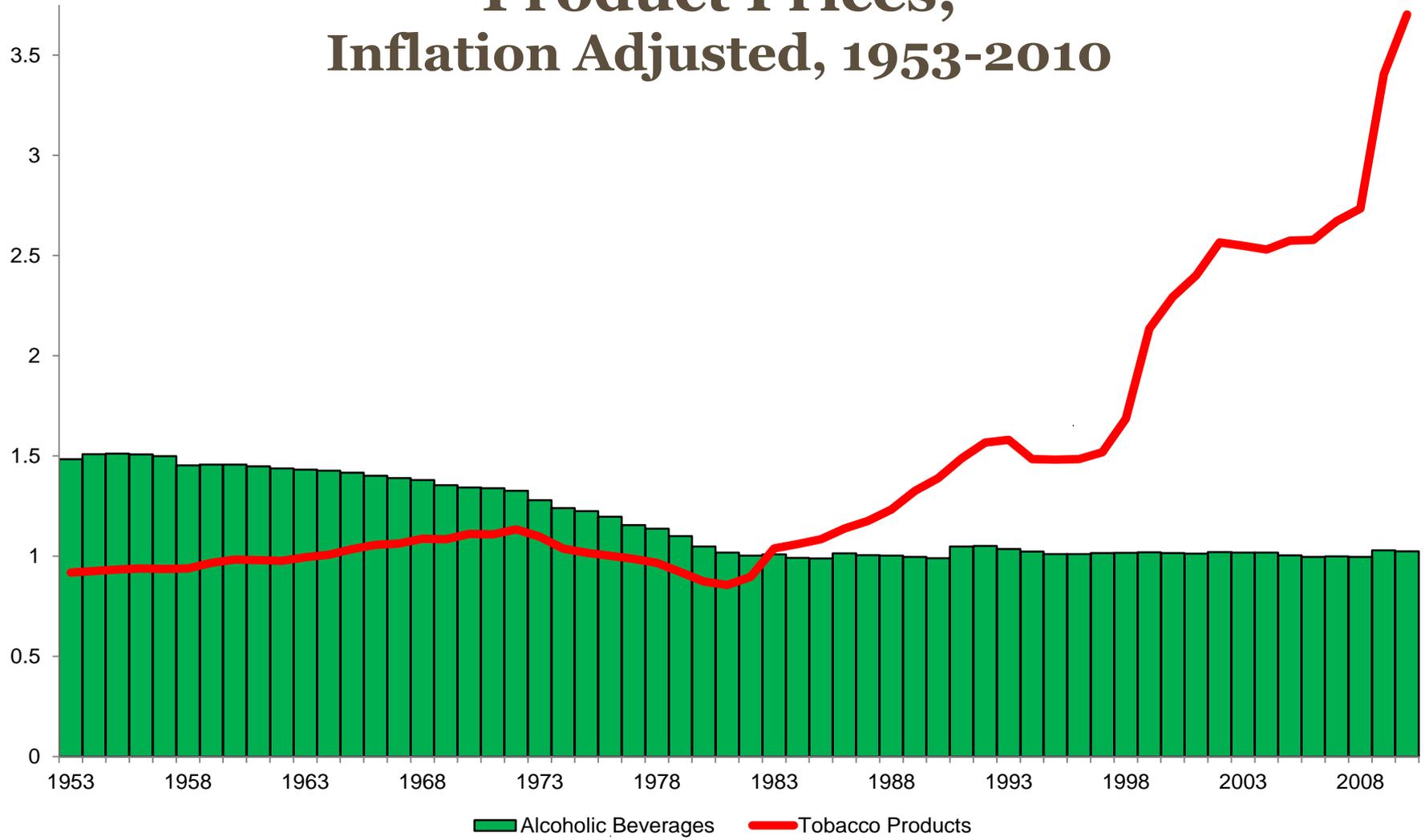
Average Beer & Cigarette Taxes United States, Inflation Adjusted 1973-2012



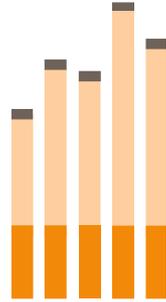
Sources: Campaign for Tobacco Free Kids; NIAAA Alcohol Policy Information System; Brewers Almanac; Bureau of Labor Statistics; and authors calculations. Note: 2012 beer tax is through June 2012



Alcoholic Beverage & Tobacco Product Prices, Inflation Adjusted, 1953-2010



Source: *Tax Burden on Tobacco*, *Brewers' Almanac*, and author's calculations



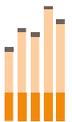
Economic Impact

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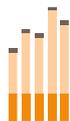
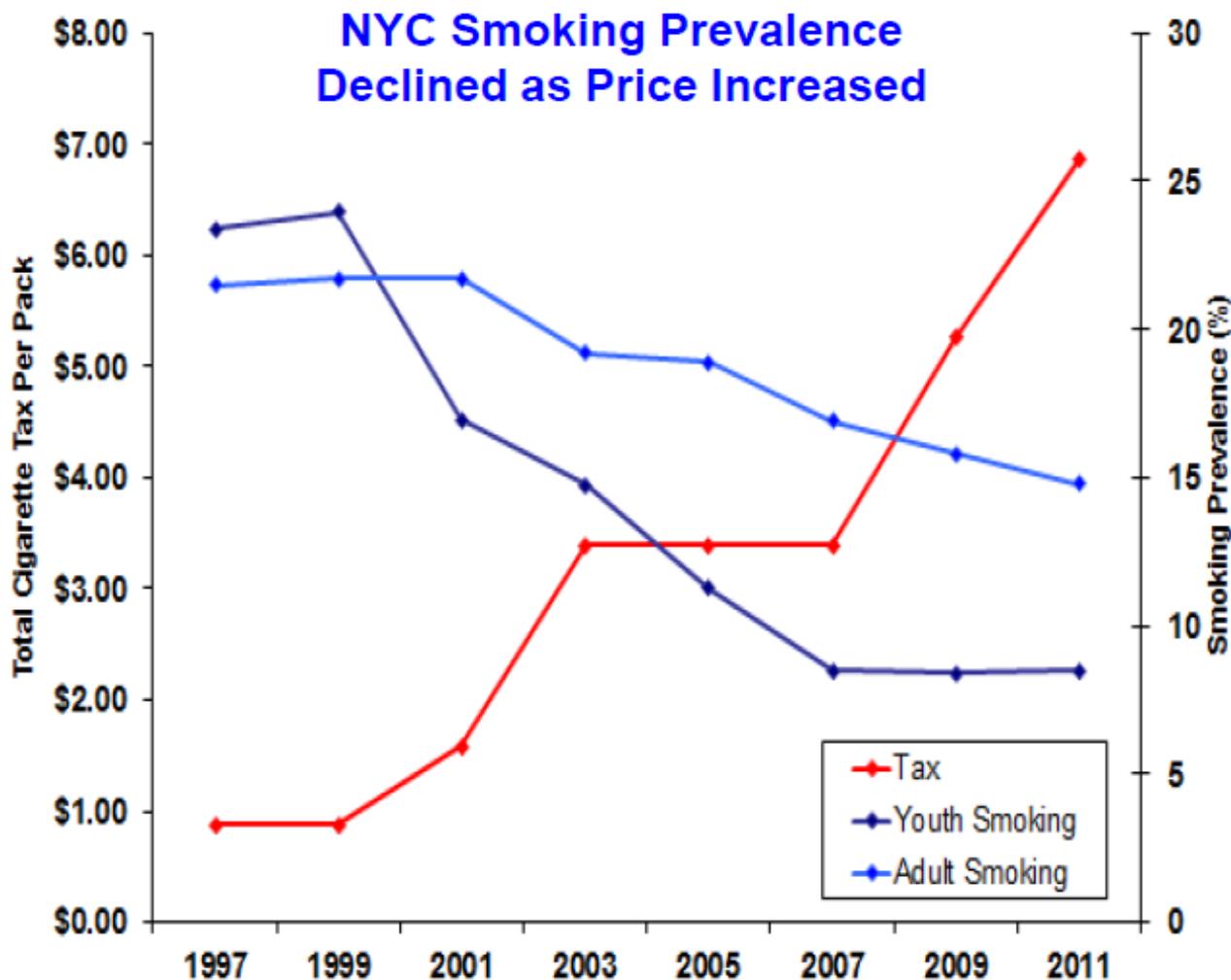
Myths & Facts

Common Oppositional Arguments

- **Alcohol and tobacco industries use several common arguments in opposition to tax increases:**
 - Won't have the intended impact in terms of reducing use and consequences
 - Will lead to extensive tax avoidance and tax evasion
 - Will harm poor and working class consumers
 - Will lead to massive job losses



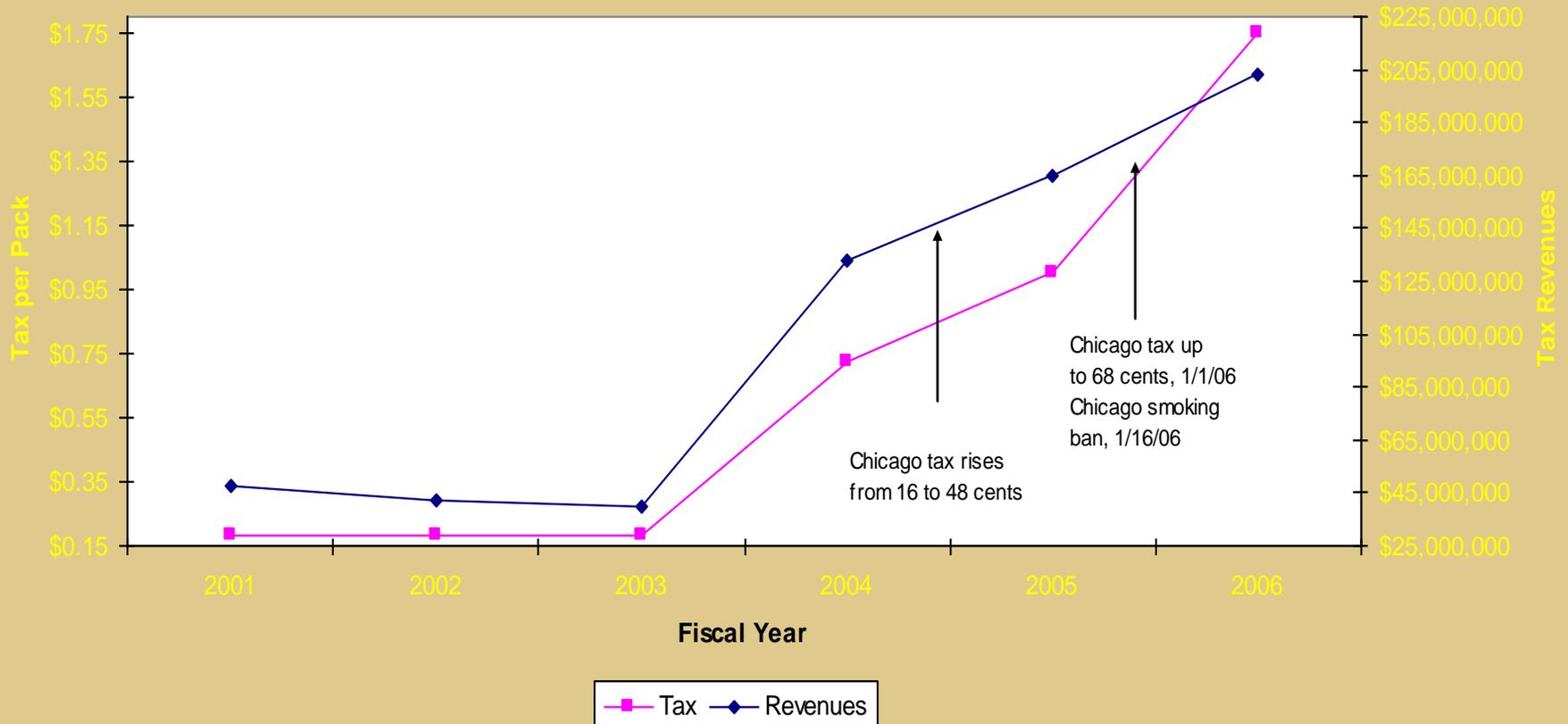
Tax Avoidance & Evasion Do NOT Eliminate Health Impact of Higher Taxes



Tax Avoidance & Evasion

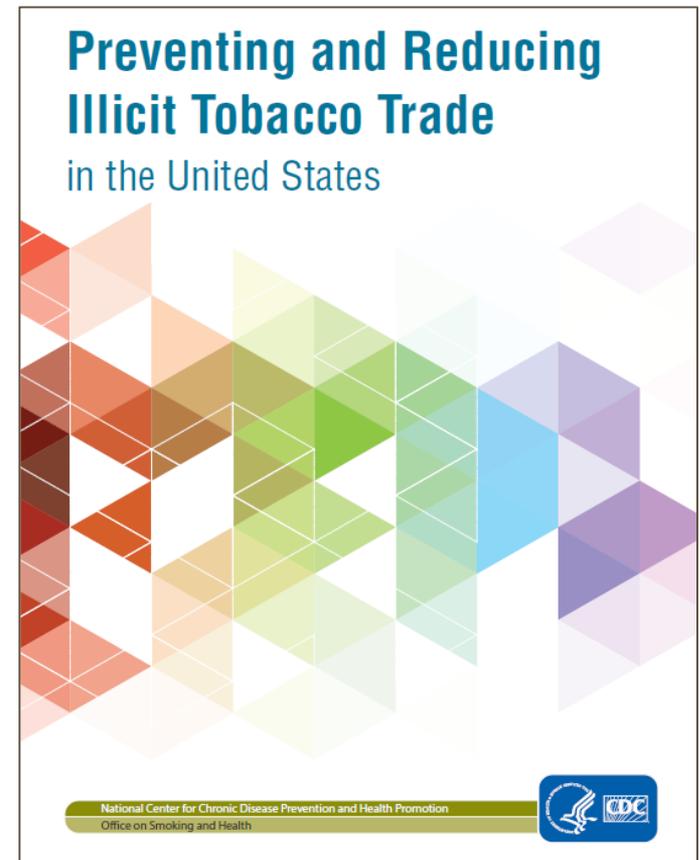
Do NOT Eliminate Revenue Impact of Higher Taxes

Cook County Cigarette Tax and Tax Revenues - FY01-FY06

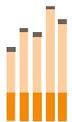


Curbing Tobacco Tax Avoidance & Evasion

- Adopt the “Three-Legged Stool” approach
 - License of all involved in tobacco product manufacture, import, distribution, and retail sales
 - Apply high-tech tax stamps
 - Increase enforcement resources and levy strong penalties on violators

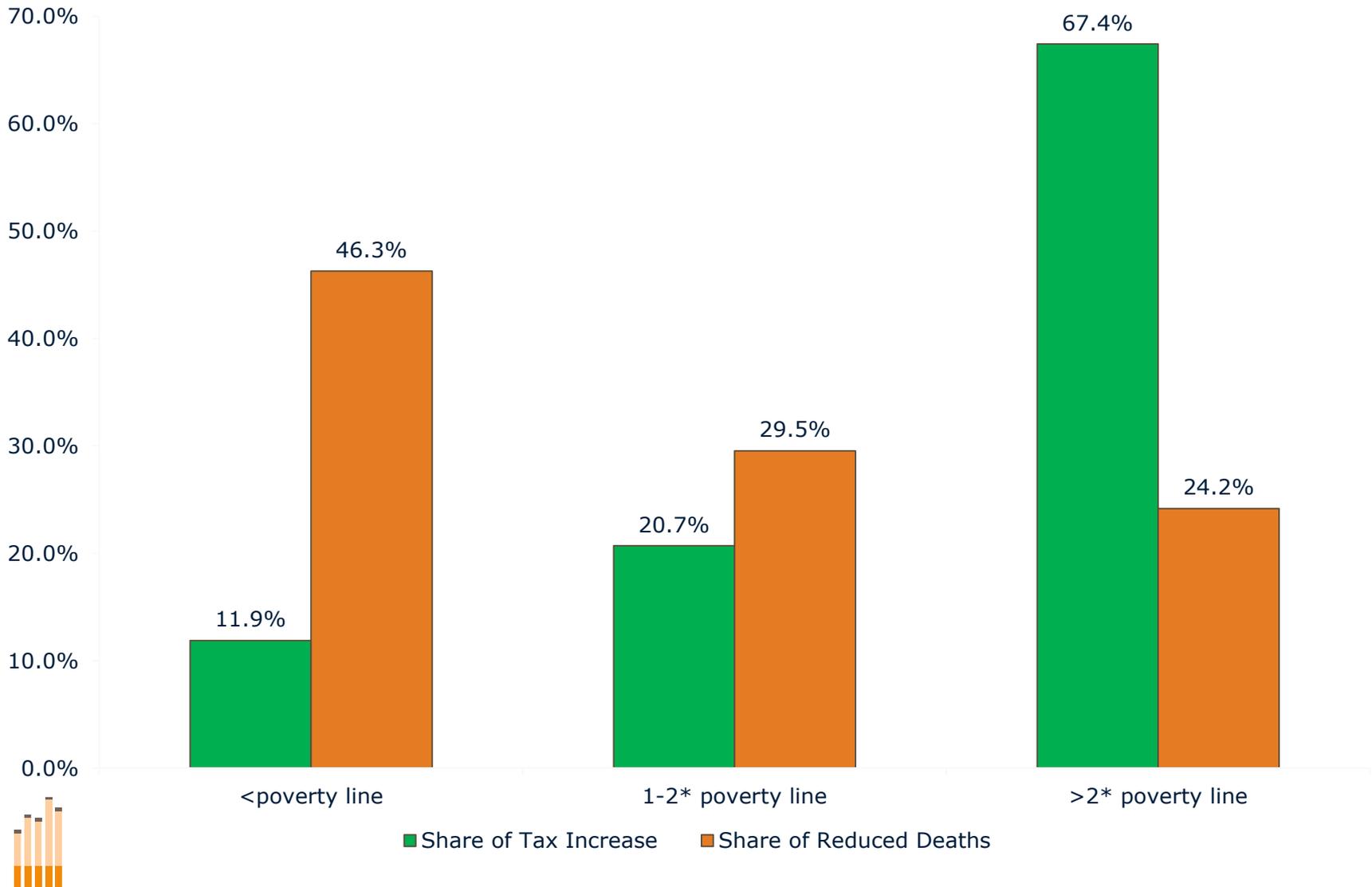


Source: CDC, 2015



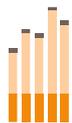
Who Pays & Who Benefits

Impact of Federal Tax Increase, U.S., 2009



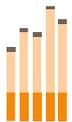
Impact on the Poor

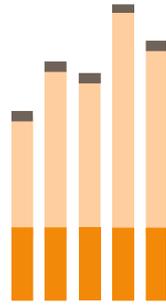
- Need to consider overall fiscal system
 - Key issue with tobacco taxes is what's done with the revenues generated by the tax
 - Greater public support for tobacco tax increases when revenues are used for tobacco control and/or other health programs
 - Net financial impact on low income households can be positive when taxes are used to support programs targeting the poor
 - Concerns about regressivity offset by use of revenues for programs directed to poor



Tobacco/Alcohol Taxes & Jobs

- Tax increases decrease consumption of taxed products
 - Small loss of jobs in tobacco/alcohol sectors
- Money not spent on taxed products will be spent on other goods and services
 - Gains in jobs in other sectors
- Increase in tax revenues will be spent by government
 - Additional job gains in other sectors
- Net increase in jobs in almost all states

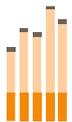




Summary

Summary

- Tobacco and alcohol tax increases reduce use and consequences
- Tax increases generate significant new revenues
- Tobacco taxes rising over time in most states
- Alcohol taxes rarely increased
- Counterarguments about negative economic impact false or greatly overstated



For more information:

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