Focus on . . . Smoking

Increasing tobacco taxes: An evidence-based measure to reduce tobacco use

Marion Ceraso, MHS; David Ahrens, MS; Patrick Remington, MD

Tobacco use is Wisconsin’s single most important preventable cause of premature death and disease, killing almost 8000 state citizens every year, and costing the state more than $3 billion annually in health care and lost productivity. Wisconsin’s high tobacco-related disease rates and escalating health care costs make it critical that any program to improve the public health and economy of the state include an aggressive tobacco prevention and control program.

Well-funded, comprehensive tobacco control programs have shown rapid and substantial reductions in tobacco use. Based on these successes, the US Centers for Disease Control and Prevention (CDC) recommends that all states implement long-term, comprehensive programs. Wisconsin’s tobacco control program is based largely on this CDC model and includes the components of a statewide program including local tobacco control coalitions, a statewide quit line, a counter-marketing campaign, and programs targeted to pregnant smokers, youth, young adults, and communities of color.

Wisconsin’s Tobacco Control Program is showing promise. In 2002, Wisconsin cigarette sales decreased by 5%, compared to a decrease of only 1% for the United States as a whole. Further, between 2000 and 2003 both current and ever smoking rates declined among Wisconsin middle school students.

The CDC-recommended funding levels for tobacco control programs in medium-sized states are between $6 and $16 per capita, or approximately $30 million to $80 million annually in Wisconsin. Funding levels for Wisconsin’s program have never reached this level—ranging from approximately $2 million annually prior to the Multi-State Master Settlement Agreement, to a high of $23 million for 1 year, and reduced to its current level of $10 million annually.

States such as Massachusetts and California that have led the nation in the prevention and control of tobacco use have taken the combined approach of increasing tobacco taxes and dedicating a portion of the tax revenues to fund comprehensive statewide programs. Cigarette excise tax increases are currently being proposed in 12 states by both Republican and Democratic governors and legislatures. The bulk of these tax proposals are for increases of greater than 50 cents.

Advantages of an Increased Tobacco Tax

Potential advantages of an increase in Wisconsin’s tobacco tax include the following:

Reduced Consumption and Prevalence, Especially Among Young People and Low-income Populations

Extensive evidence has established that increasing the price of cigarettes encourages quitting, prevents smoking initiation, and reduces consumption. Further, reductions in consumption and/or prevalence are more likely among young people and low-income smokers in response to price increases. States such as Massachusetts and California have led the nation in the prevention and control of tobacco-specific diseases such as lung cancer and chronic obstructive pulmonary disease (COPD) are highest among Wisconsin’s poorest populations. As can be seen in Table 1, for every indicator of income at the county level, both COPD and lung cancer mortality rates are higher for Wisconsin’s poorest populations. As can be seen in Table 1, for every indicator of income at the county level, both COPD and lung cancer mortality rates are higher for the poorest as compared to the richest group of counties. Similarly, in Figure 2, lung cancer mortality rates decline in a step-like fashion as county family median income increases. Raising the price of cigarettes has been recognized as an effective approach to reducing socioeconomic disparities related to smoking when implemented in conjunction with support measures.

Ms Ceraso is a senior health policy analyst and Mr Ahrens is a researcher with the University of Wisconsin Population Health and Health Policy Institute. Doctor Remington is a professor in the Department of Population Health Sciences at the University of Wisconsin-Madison.
for smokers in low-income populations. A cigarette excise tax increase in Wisconsin that supported a strong tobacco control program, including dedicated funding for programs targeted to low-income smokers, would confront the state’s currently regressive tobacco-related disease burden.

**Improved Overall Public Health**

Based on previously published estimates of the impact of price on smoking rates, projections are that the $1 increase in Wisconsin’s cigarette tax would prevent over 70,000 young people from starting to smoke and avoid over 30,000 tobacco-related deaths.

**Increased State Revenues**

Increasing tobacco taxes increases state revenues. Across the United States, tax revenues have been shown to rise with rising tax rates, even as cigarette consumption declines. Table 2 indicates that this pattern of higher taxes consistently leading to increased revenue has held in Wisconsin as well. The previously cited example of a $1 increase in Wisconsin’s cigarette excise tax would be projected to generate more than $250 million in new revenue annually. Further, reductions in tobacco consumption and prevalence will lead to reductions in the almost $3 billion Wisconsin pays every year in health care and lost productivity costs.

**Addressing the Critics**

Despite the advantages to increasing the cigarette tax, opponents to such a measure cite potential disadvantages, including opposition to new taxes, regressivity, and an increase in cross-border, Internet, and reservation sales of cigarettes. There has been considerable attention paid in the literature to these and other arguments against increasing tobacco taxes. Overall, the weight of evidence supports tobacco tax increases as effective and appropriate public health and fiscal policy.

![Figure 1. Per capita cigarette sales and cigarette price, Wisconsin, 1970-2003. Source: Adapted from Chaloupka, 2003.](image)
What follows is a brief explanation of the potential disadvantages and a response to each.

**Opposition to New Taxes**

Concern that overall tax rates in Wisconsin are excessive and potentially damaging to the state’s economy has led to general opposition to raising taxes of any kind, including tobacco taxes. However, the inclination against raising taxes is not supported by public opinion. In a recent survey, an increase in the cigarette tax was supported by almost 80% of Wisconsin voters. Further, the state currently makes allowances for other similar tax increases, such as the gas tax for motor vehicles in Wisconsin, which is indexed to the US Consumer Price Index. The cigarette tax is not indexed, and therefore each increase receives scrutiny as a new policy.

Wisconsin’s cigarette excise taxes are currently lower as a percentage of price than they have been since the 1970s. As can be seen in Figure 3, the state tax has fallen from 36% of price in 1972 to only 19% of price in 2003. Wisconsin’s health plan for the year 2000, Healthiest Wisconsin, set a goal of 35% of price for the state excise tax level. Advocates point out that as cigarette prices have risen and state excise taxes have fallen as a percentage of price, the state has continued to pay the health and economic costs of smoking while the tobacco companies reap a greater share of the revenues.

**Regressivity**

Smoking prevalence is highest among low-income groups in Wisconsin. Critics of a tobacco tax increase argue that an increase in the tax on cigarettes would, therefore, have the potential to differentially burden low-income smokers who do not reduce smoking in response to the increase.

To avoid the potential for increased economic hardship among those remaining low-income smokers who are unable to quit or reduce in response to a price increase, a range of policy options has been proposed, including enhancing resources and access to resources to help low-income smokers quit (e.g., cessation counseling and medications), and targeting the broader social and economic determinants of smoking by expanding overall programs and services benefiting low-income populations.

Addressing the regressive burden of tobacco-related disease in Wisconsin is also central to the discussion of the impact of tobacco tax increases. In addition to smoking and dying in greater numbers, lower-income smokers are also estimated to be more than 3 times more likely to quit in response to a 50% price increase than higher-income smokers.

**Cross-Border, Internet, and Reservation Sales**

Critics of a tobacco tax increase argue that a significant increase in the cigarette tax may create an incentive for more smokers to purchase their cigarettes from sources not impacted by the tax increase. This would include purchases made over the Internet, on Indian reservations, and in neighboring states with lower tax rates. However, recent studies have found that while some tax avoidance behavior does occur in response to tobacco price increases, the impact is limited. The
The majority of smokers continue to purchase cigarettes by the pack and through the most accessible outlets such as convenience stores and drug stores.13 Further, states can take action to reduce tax avoidance. Governor Doyle has proposed a change in law that would allow for more stringent enforcement of tax collection for purchases made through the Internet.

**Conclusion**

A large and growing body of scientific evidence has established that raising the price of tobacco through increased taxes is a powerful policy tool for reducing tobacco use, especially among youth and low-income populations. An increase in the tobacco tax is, however, only part of the answer. State programs that have achieved the greatest impact have implemented tobacco tax increases in conjunction with dedicated funding for comprehensive tobacco control programs. Targeted resources to help low-income smokers quit, and measures to prevent or reduce tax avoidance are important elements of a model program. This model is clearly applicable now in all states, including Wisconsin. With the state deficit crisis looming, driven in part by rising health care costs, policy makers should give serious consideration to the evidence supporting the combined impact that significantly increased cost and an aggressive, multifaceted tobacco control program could have on reducing the health and economic burden of tobacco use.

**Acknowledgments**


**REFERENCES**

3. Wisconsin Department of Revenue; 2003.
The mission of the Wisconsin Medical Journal is to provide a vehicle for professional communication and continuing education of Wisconsin physicians.

The Wisconsin Medical Journal (ISSN 1098-1861) is the official publication of the Wisconsin Medical Society and is devoted to the interests of the medical profession and health care in Wisconsin. The managing editor is responsible for overseeing the production, business operation and contents of Wisconsin Medical Journal. The editorial board, chaired by the medical editor, solicits and peer reviews all scientific articles; it does not screen public health, socioeconomic or organizational articles. Although letters to the editor are reviewed by the medical editor, all signed expressions of opinion belong to the author(s) for which neither the Wisconsin Medical Journal nor the Society take responsibility. The Wisconsin Medical Journal is indexed in Index Medicus, Hospital Literature Index and Cambridge Scientific Abstracts.

For reprints of this article, contact the Wisconsin Medical Journal at 866.442.3800 or e-mail wmj@wismed.org.

© 2005 Wisconsin Medical Society