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Taxes on cigarettes reduce smoking, improve public health and generate revenue for the state

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Studies show that even a modest increase in the price of cigarettes will reduce consumption, leading to better health outcomes statewide and lower health care costs.

A review of recent studies shows that cigarette consumption is closely tied to the price of cigarettes. In fact, one report found that even modest increases in the price of cigarettes will reduce consumption, especially among key demographic groups such as young adults.¹ Given that taxes drive up the price of cigarettes, any measure that raises taxes on cigarettes would:

- decrease consumption as smokers cut back on the quantity consumed.
- further decrease consumption in the long term as fewer people pick up the now more expensive habit.
- improve individual and public health as fewer people smoke.
- produce savings for the state in the form of lower health care costs and greater productivity among workers.

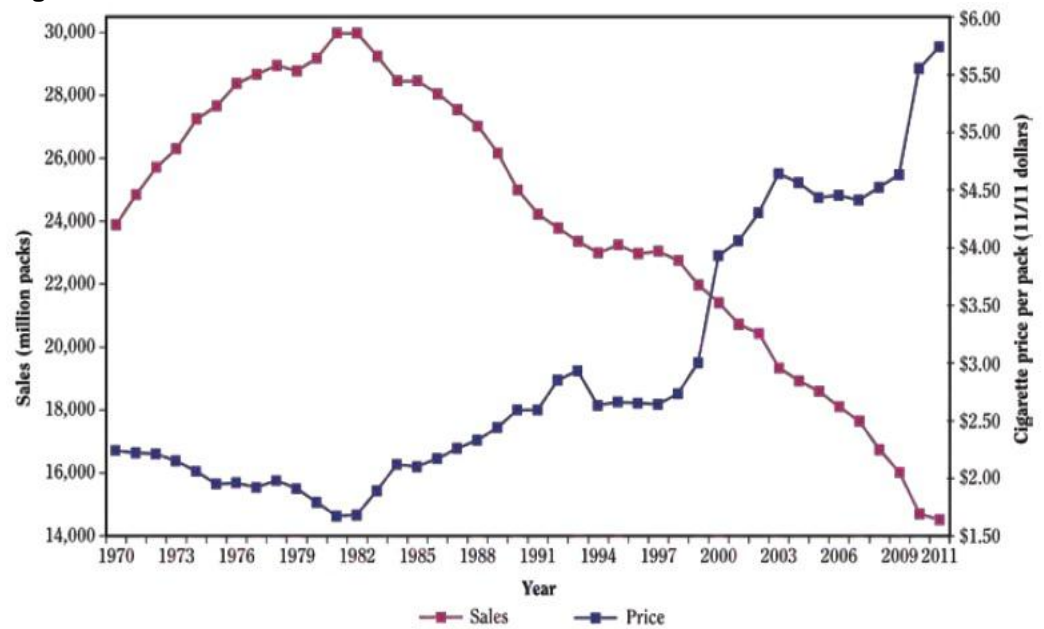
Smoking is detrimental to nearly every facet of health

The Centers for Disease Control and Prevention (CDC) says cigarette smoking causes cancer, heart disease, strokes, lung diseases, and is the leading cause of preventable deaths worldwide. Furthermore, in the United States smoking accounts for about 1 in 5 deaths annually. This means that more than 440,000 people will die each year because of an addiction to cigarettes.²

Increased cigarette prices lead to decreased consumption

Numerous studies have explored the connection between the price of cigarettes and its effect on consumption. According to the Surgeon General's report on tobacco use, a 10 percent increase in the price of cigarettes should lead to a 3 to 5 percent decrease in consumption in the developed world.³ Furthermore, people between the ages of 15 and 25 exhibit an even greater sensitivity to price than older smokers.⁴ This is important as the higher tax could create a barrier to youth and young adult smoking, meaning these young people will not get hooked in the first place. A decrease in consumption would create a healthier and happier workforce leading to lower health care costs, greater productivity and potentially a decrease in the rate of young adult smokers. Figure 1 plots the price of cigarettes versus the total number of packs sold nationwide over the past several decades. A strong inverse relationship is apparent, meaning that as the price of a pack of cigarettes increases, consumption declines.

Figure 1



Source: U.S. Department of Health and Human Services "Preventing tobacco use among youth and young adults" 2012 Report.⁵

Smoking has a large cost to the public

The CDC estimates that cigarette smoking (and second-hand inhalation) costs the nation \$96 billion in health care costs and \$97 billion in decreased productivity annually.⁶ As consumption of cigarettes decreases in concert with rising prices, large costs to the state can be mitigated.

Taxes on cigarettes generate revenue for the state

In 2009, the state sales tax exemption for cigarettes in Colorado was placed on hold for four years. This policy change generated an estimated \$30 million in General Fund revenue in both fiscal years 2009-2010 and 2010-2011. That added revenue helps defray the public health costs associated with smoking and demonstrates one of the powerful outcomes of increasing the tax on cigarettes.⁷

Eliminating exemption is the right thing to do

Colorado should support policies that improve public health and reduce smoking. This year the General Assembly has a chance to do just that in the form of HB13-1144, which proposes extending the 2009 policy indefinitely by eliminating the states sales and use tax exemption for cigarettes. Given that the sales tax exemption has already been suspended, this bill would not raise taxes on cigarettes relative to the current price paid at the counter. Furthermore, if this bill does not pass, then the state will forego an estimated \$28 million dollars in fiscal year 2013-2014 and \$26.5 million in fiscal year 2014-2015.⁸ Not only would the state see less revenue if HB13-1144 is not enacted, but any decrease in cigarette consumption that has occurred over the past several years due to the suspended exemption could erode as smokers return to smoking more because of the lower price.

Colorado will promote the public health by keeping prices at a higher level in order to encourage decreased cigarette consumption. In the process, state

revenues will grow relative to current law and will avoid a de facto subsidy for cigarette buyers and smokers. Allowing the state to collect sales and use taxes to increase on a pack of cigarettes is sound public policy.

¹ “Preventing Tobacco Use Among Youth and Young Adults” <<http://www.surgeongeneral.gov/library/reports/preventing-youth-tobacco-use/full-report.pdf>> pp. 699-702

² “CDC Smoking and Tobacco Fast Facts” <http://www.cdc.gov/tobacco/data_statistics/fact_sheets/fast_facts/>

³ “Preventing Tobacco Use Among Youth and Young Adults” <<http://www.surgeongeneral.gov/library/reports/preventing-youth-tobacco-use/full-report.pdf>> pp. 699

⁴ Chaloupka, Frank J. “How Effective are Taxes in Reducing Tobacco Consumption?” pp. 3 <http://tigger.uic.edu/~fjc/Presentations/Papers/taxes_consump_rev.pdf>

⁵ “Preventing Tobacco Use Among Youth and Young Adults” <<http://www.surgeongeneral.gov/library/reports/preventing-youth-tobacco-use/full-report.pdf>> pp. 525

⁶ “CDC Smoking and Tobacco Fast Facts” <http://www.cdc.gov/tobacco/data_statistics/fact_sheets/fast_facts/>

⁷ Fiscal Note for HB09-1342

<http://www.leg.state.co.us/clics/clics2009a/csl.nsf/fsbillcont3/97CC28604CAC7B6E872575910055984B?Open&file=HB1342_f1.pdf>

⁸ Fiscal Note for HB13-1144

<http://www.leg.state.co.us/clics/clics2013a/csl.nsf/fsbillcont3/DB5476500BF1877F87257AEE0057C1E2?Open&file=HB1144_00.pdf>