



## NEW REVENUES, PUBLIC HEALTH BENEFITS & COST SAVINGS FROM A \$1.00 CIGARETTE TAX INCREASE IN NORTH CAROLINA

**Current state cigarette tax: 45 Cents per pack (44th among all states)  
Smoking-caused costs in North Carolina: \$7.17 per pack**

**Annual healthcare expenditures in North Carolina directly caused by tobacco use: \$2.46 billion  
Smoking-caused state Medicaid program spending each year: \$769.0 million**

**New Annual Revenue from Increasing the Cigarette Tax Rate by \$1.00 Per Pack: \$326.7 million**

New Annual Revenue is the amount of additional new revenue over the first full year after the effective date, above what would have been received absent any rate increase. The state will collect less new revenue if the rate increase is not applied to all cigarettes in wholesaler and retailer inventories on the effective date, as is standard practice in most states.

### Projected Public Health Benefits from the Rate Increase

<b>Percent decrease in youth smoking:</b>	<b>15.9%</b>
<b>Kids in North Carolina kept from becoming addicted adult smokers:</b>	<b>83,700</b>
<b>Current adult smokers in the state who would quit:</b>	<b>51,700</b>
<b>Smoking-affected births avoided over next five years:</b>	<b>12,750</b>
<b>North Carolina residents saved from premature smoking-caused death:</b>	<b>40,400</b>
<b>5-year health savings from fewer smoking-affected pregnancies &amp; births:</b>	<b>\$21.7 million</b>
<b>5-year health savings from fewer smoking-caused heart attacks &amp; strokes:</b>	<b>\$29.1 million</b>
<b>Long-term health savings in the state from adult &amp; youth smoking declines:</b>	<b>\$1.9 billion</b>

- These projections incorporate the effect of both ongoing background smoking declines and the continued impact of the 61.66-cent federal cigarette tax increase (effective April 1, 2009) on prices, smoking levels and pack sales.
- Tax increases of less than roughly 20 cents per pack or 10% of the average state pack price do not produce significant public health benefits or cost savings because the cigarette companies can easily offset the beneficial impact of such small increases with temporary price cuts, coupons, and other promotional discounting. Splitting a tax rate increase into separate, smaller increases in successive years will similarly diminish or eliminate the public health benefits and related cost savings (as well as reduce the amount of new revenues).
- To maximize revenues, public health benefits, and cost savings (and promote tax equity), North Carolina should set its tax rates on other tobacco products (OTPs) to equal the new cigarette tax rate. Equal tax rates ensure that the state will not lose revenue each time a smoker switches from cigarettes to cigars, RYO, or smokeless. To parallel the new cigarette tax rate of \$1.45 per pack, the state's new OTP tax rate should be at least 55% of the wholesale price with minimum tax rates for each major OTP category linked directly to the state cigarette tax rate on a per-package or per-dose basis.
- Ongoing reductions in state smoking levels will, over time, gradually erode state cigarette tax revenues (in the absence of any new rate increases). But those declines are more predictable and less volatile than many other state revenue sources, such as state income tax or corporate tax revenues (which can drop sharply during recessions). In addition, the smoking declines that reduce tobacco tax revenues will simultaneously produce much larger reductions in government and private sector smoking-caused costs.

Projections are based on research findings that each 10% cigarette price increase reduces youth smoking by 6.5%, adult rates by 2%, and total consumption by 4% (adjusted down to account for tax evasion effects). Revenues still increase because the higher tax rate per pack will bring in more new revenue than is lost from the tax-related drop in total pack sales. These projections are fiscally conservative because they include a generous adjustment for lost state pack sales (and lower net new revenues) from possible new smuggling and tax evasion after the rate increase and from fewer sales to smokers or smugglers from other states. Kids stopped from smoking and dying are from all kids alive today. Long-term savings accrue over the lifetimes of persons who stop smoking or never start because of the rate increase. All cost and savings in 2004 dollars. Projections will be updated when new relevant data or research becomes available.

**For more on sources and calculations, see <http://www.tobaccofreekids.org/research/factsheets/pdf/0281.pdf>  
More information available at <http://tobaccofreekids.org/research/factsheets/index.php?CategoryID=18>**

**Campaign for Tobacco-Free Kids 11.16.09 / Ann Boonn & Eric Lindblom, January 5, 2010**