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The Impact of Cigarette Taxes on Health Care Costs and the Economy

Cigarette Taxes in the Northeast

The northeastern states impose higher excise taxes on cigarettes than those found in other parts on the nation. The national average for state excise taxes is \$0.44 per pack of cigarettes where as northeastern states average \$0.18 higher at \$0.72 cents (See Figure 1). Additionally the federal government imposes a \$0.39 cent excise tax per pack of 20 cigarettes. State cigarette taxes in Vermont are the second lowest of the northeastern states (Pennsylvania has the lowest). New York state excise taxes are the highest at \$1.11 per pack, the second highest in the country (See Figure 2) and are scheduled to increase to \$1.50 per pack (Federation of Tax Administrators 2002).

Northeastern United States

State	State Excise	State + Federal
CT	\$0.50	\$0.89
ME	\$1.00	\$1.39
MA	\$0.76	\$1.15
NH	\$0.52	\$0.91
NJ	\$0.80	\$1.19
NY	\$1.11	\$1.50
PA	\$0.31	\$0.70
RI	\$1.00	\$1.39
VT	\$0.44	\$0.83

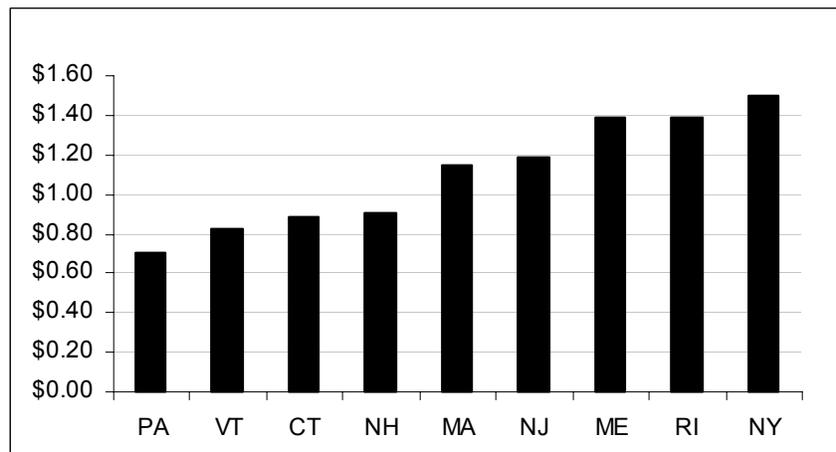


Figure 1: Cigarette Tax Rates of the Northeastern United States.

Source: Federation of Tax Administrators 2002.

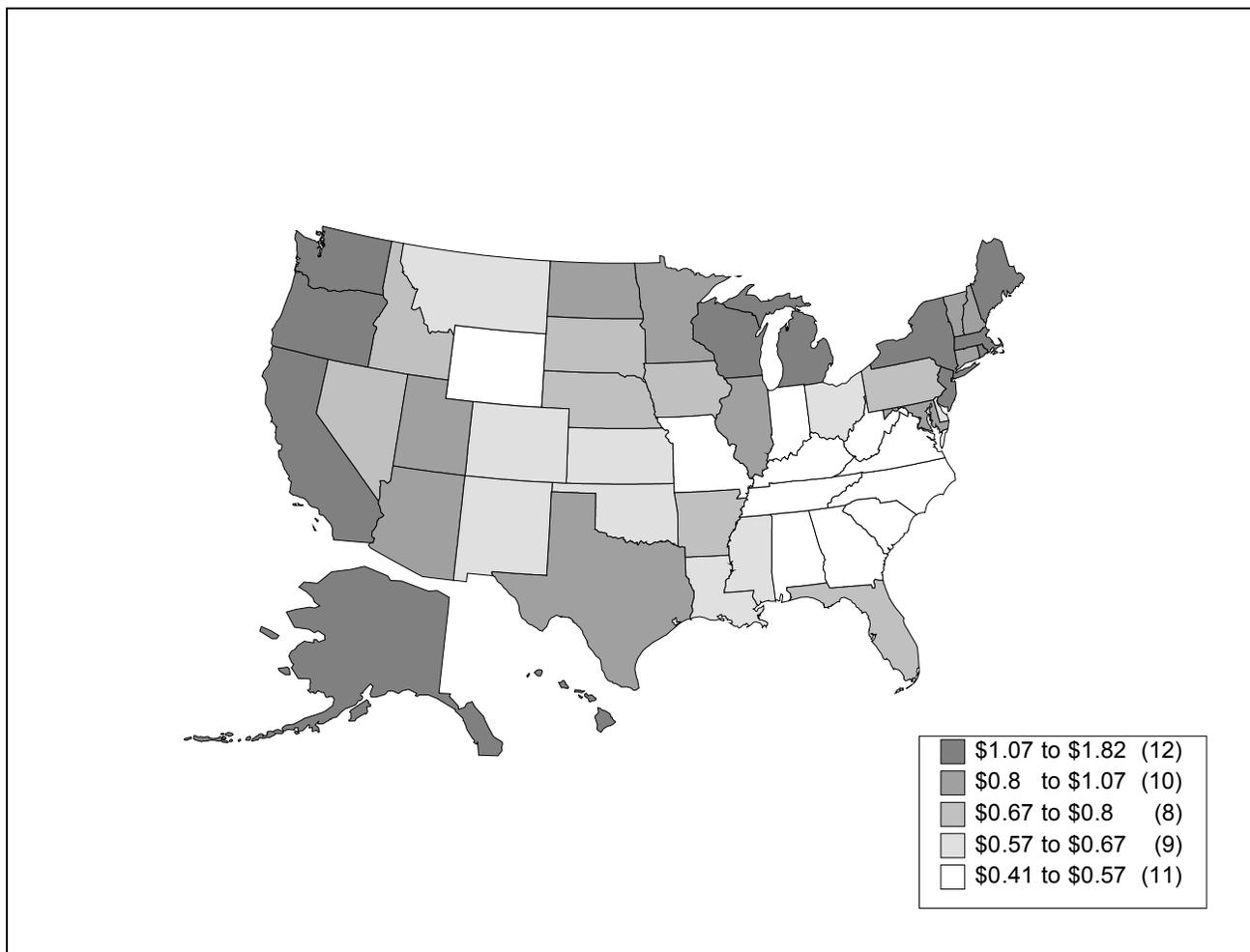


Figure 2: Taxes per Pack of Cigarette (Combined Federal and State)
 Source: Federation of Tax Administrators 2002.

Cigarette Taxes and Health Care Costs

Teen Smoking

A recent study done by researchers at the University of Illinois at Chicago and the University of Michigan Institute for Social Research found that higher cigarette prices discourage teenagers from experimenting with cigarettes and are helpful in preventing them from becoming addicted to smoking. Specifically, the study found that a ten percent increase in cigarette prices would decrease the amount of teens who begin smoking between three and ten percent (Tauras, O'Malley and Johnston 2001).

Pregnant Women

A recent study done by the American Journal of Public Health showed that for every 10 percent increase in the price of cigarettes smoking among pregnant women would be reduced by 7 percent and that a 55 cent increase in excise taxes would reduce maternal smoking rates by about

22%. The study went on to find that reducing smoking during pregnancy lowers health care costs by reducing health complications among pregnant women and their babies that are related to smoking (Evans and Ringel 1999). The U.S. Surgeon General has found that smoking during pregnancy doubles the chance of her baby being born with a low birth weight, which can require expensive health care (US Newswire 2001). The study suggests that smoking among pregnant women declines and average birth weights rise when cigarette taxes are increased. It also indicates that “35 percent of the total dollar amount spent in the United States on health care during the first year of life can be attributed to the incremental costs incurred by the 7 percent of infants that are low birth weight” (Evans and Ringel 1999). Smoking during pregnancy has also been related to stillbirths, spontaneous abortions, and sudden infant death syndrome among other illnesses (US Newswire 2001).

Economic Impact of Cigarette Tax Increases

Growth in Black Markets and Smuggling

It is noted that cigarette smuggling from states with low-tax rates to those with higher tax rates account for only 3% to 4% of all cigarettes purchased in the United States (Thrusby 1991). In 1998 and 1999, cigarette companies raised their prices by over 80 cents per pack, with an additional 13 cents per pack added in 2000. The price increases are significantly larger than any tax increases. So long as cigarette prices rise in conjunction with a rise in taxation the marginal benefit gained from smuggling and black market sales remains limited (USDA Economic Research Service 2000).

Canadian cigarette taxes do not differ significantly from U.S. tax rates therefore cigarette smuggling is not a major problem. Due to Canada’s past difficulties with cigarette smuggling, enforcement officials on both sides of the border are more adequately prepared to halt any future smuggling (Canadian Smoking and Health Action Foundation 2001).

Increases in Purchases on Indian Reservations

In order to combat the likelihood of individuals purchasing their cigarette on Indian reservations, Washington State, in 2001, entered into a compact with 14 of the states 28 recognized tribes. The compacts require that the tribal governments collect a tax that is equal to taxes collected outside of the reservation communities, thus eliminating any price advantage that may be obtained within their community (Washington State Legislature 2001).

Increase in Cross-Border Purchases

Though there remains a tendency for individuals to stock up on cigarettes to avoid high taxation, approximately two-thirds of all cigarettes in the U.S. are sold in individual packs (Quinn 1999). This indicates that smokers are more interested in the convenience of their purchase. In order to prevent the cross-border purchases, citizens of Washington State are required to pay a use tax when purchasing cigarettes out of state to be smoked in Washington State. The use tax is calculated in accordance with the Washington state sales tax (Washington Department of Revenue 1988).

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