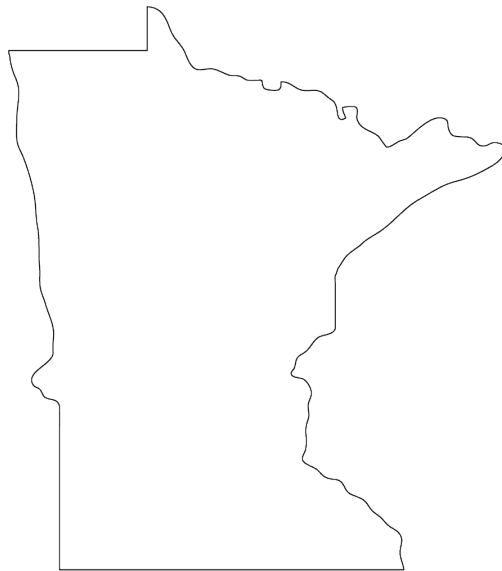


**Get the Facts:  
Minnesota's 2013 Tobacco Tax Increase  
is Improving Health**



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## Overview

The tobacco industry has a well-known track record of selling dangerous, addictive products and misleading the public about their health effects. That was true in the past and is still true today. Smoking continues to be a leading cause of preventable death and disease in Minnesota. Each year, more than 5,100 Minnesotans die from tobacco-related diseases, while the annual cost of smoking in Minnesota is estimated to be \$2.87 billion in direct health care costs.<sup>1</sup> In addition, more than 55,000 Minnesota middle and high school students are using tobacco.<sup>2</sup>

Tobacco companies know they need to hook users at an early age because 90 percent of adult smokers start before age 18.<sup>3</sup> In fact, each year the tobacco industry spends more than \$164 million in Minnesota alone marketing its deadly products, often using strategies that are proven to be successful with children and adolescents.<sup>4</sup>

Public health groups have worked aggressively to shed light on the tobacco industry's tactics, including exposing its political strategies. A recent example of a tobacco industry tactic is a June 2014 report from Dunham and Associates titled, "The Economic Consequences of the Recent Cigarette Tax Increase in Minnesota." This report is consistent with the industry's past efforts to fight tobacco price increases. It fails to meet accepted standards for economic research, and a quick look at real-time data suggests the report's assumptions and conclusions are not based on the actual experiences in Minnesota and its border states.

## What Data Demonstrate

Research has proven that tobacco price increases are one of the most effective ways of reducing smoking prevalence, preventing youth from starting and saving lives. Strong data now available following the implementation of the 2013 Minnesota tobacco tax increase of a \$1.60 per pack of cigarettes provides further proof of what was already known: raising the price of tobacco benefits the health of all Minnesotans. Several contributing factors describe the success of the tobacco tax increase:

- **Fewer Minnesota youth are smoking.** Since 2011, smoking among Minnesota high school students dropped from 18.1 percent to 10.6 percent.<sup>2</sup> This is the sharpest decline ever recorded by the Minnesota Youth Tobacco Survey (MYTS) and means thousands fewer Minnesota youth will become addicted adults.
- **Fewer adult Minnesotans are smoking.** The 2014 Minnesota Adult Tobacco Survey (MATS) shows that 14.4 percent of adult Minnesotans now smoke. This is the lowest rate ever recorded in the state and a sharp decline from 16.1 percent in 2010, the last time the rate was measured.<sup>5</sup>
- **More Minnesota smokers are quitting.** According to MATS, increasing the price of tobacco supports smokers in quitting. Among smokers who quit in the past year, majorities said that the price increase helped them to make quit attempts (62.8 percent) and to stay smoke-free (62.7 percent).<sup>5</sup>

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<sup>1</sup> Blue Cross and Blue Shield of Minnesota. Health Care Costs and Smoking in Minnesota: The Bottom Line. 2010.

<sup>2</sup> Minnesota Department of Health. Teens and Tobacco in Minnesota, 2014 Update: Minnesota Youth Tobacco Survey. 2014.

<sup>3</sup> U.S. Department of Health and Human Services. Results from the 2013 National Survey on Drug Use and Health: Summary of National Findings. Substance Abuse and Mental Health Services Administration, Center for Behavioral Health Statistics and Quality. 2013.

<sup>4</sup> Campaign for Tobacco-Free Kids. The Toll of Tobacco in Minnesota.

2015/[http://www.tobaccofreekids.org/facts\\_issues/toll\\_us/Minnesota](http://www.tobaccofreekids.org/facts_issues/toll_us/Minnesota). 2015.

<sup>5</sup> ClearWay Minnesota<sup>SM</sup>, Minnesota Department of Health. Minnesota Adult Tobacco Survey: Tobacco Use in Minnesota: 2014 Update. 2015.

- **Tobacco sales have decreased.** Minnesota experienced a 24 percent reduction in cigarette sales, or 54.6 million packs, in the 12 months following implementation of the tobacco tax increase compared to the same 12 months of the previous year.<sup>6</sup>
- **While tobacco sales are down, tax revenue is up.** Minnesota generated more than \$204 million in new tax revenue—a 56 percent increase over the previous year—while simultaneously 54.6 million fewer packs of cigarettes were sold.<sup>6</sup>

The tobacco industry's typical response to tobacco tax increases is to assert that they hurt business. In the June 2014 report from Dunham and Associates, tobacco companies attempted to once again make the case that Minnesota is better off supporting the sales of deadly products than improving health and protecting youth from addiction.

Yet, based on actual data from Minnesota and surrounding states, there is little evidence of substantial economic harm from the recent tobacco tax increase:

- **Other states are not benefiting at Minnesota's expense.** A common argument—repeated in the Dunham and Associates report—following a state tobacco tax increase is that people who live or work near the state border will simply travel to a neighboring state to purchase their tobacco products. The report provided no hard evidence of the shift in sales. On the contrary, cigarette sales and tax revenue data in states bordering Minnesota do not demonstrate a significant shift in sales to outside of Minnesota. When comparing the 12 months after implementation of the tax with the same 12 months of the previous year, researchers found:
  - Cigarette revenue and sales in Iowa and Wisconsin actually decreased.<sup>6</sup>
  - In the two border states that saw an increase during this period—North Dakota and South Dakota—collectively, revenues only increased by 2.7 percent (\$2 million) in tobacco tax revenue, compared to Minnesota's 56 percent increase in revenue. Looking at actual packs sold, Minnesota sold 54.6 million fewer packs—a 24 percent reduction—while new sales in these two states only amounted to a total of 4.4 million additional packs (a 5.1 percent increase).<sup>6</sup>
- **There is no evidence of an unemployment problem in Minnesota border counties.** Research demonstrates that unemployment continues to fall below the statewide average in most border counties. Data for December 2014 from the Minnesota Department of Employment and Economic Development shows that 26 of 30 border counties in Minnesota have non-seasonal adjusted unemployment rates below 5 percent.<sup>7</sup> The lowest rate is Rock County at 2.1 percent, which is located next to two border states.

## **Analysis**

Evidence that holds up through independent verification should be counted as fact. In this case, the tobacco industry's purpose with the Dunham and Associates report is to deceptively promote its profits before Minnesotans' health. After all, tobacco companies will see their profits fall when more people quit, fewer youth become addicted and Minnesotans' health improves.

The tobacco industry does not offer a comprehensive representation of the facts. For example, if Minnesotans are purchasing fewer cigarettes in state, the industry asserts that they must be buying

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<sup>6</sup> Orzechowski & Walker. The Tax Burden on Tobacco monthly reports. 2014.

<sup>7</sup> Minnesota Department of Employment and Economic Development. County Unemployment Rates. <http://mn.gov/deed/data/current-econ-highlights/county-unemployment.jsp>. 2014.

them outside of Minnesota, off the Internet, on Native American reservations or illegally. The better, fact-driven assumption is that Minnesotans are smoking less, especially when the research shows that cigarette sales are down, quit attempts are up and fewer Minnesotans are smoking.

Additionally, the tobacco industry does not seek to determine how Minnesotans who are smoking less are using their money. It is highly likely that people who no longer smoke or smoke fewer cigarettes are instead using this money to buy other goods and services or increasing their savings.<sup>8,9</sup> Unlike tobacco industry-sponsored studies, economic-based studies consider the employment impact of shifting consumer spending from tobacco products to other expenditures that are more likely to be produced locally.

A systematic review of 34 peer-reviewed studies found that most arguments the tobacco industry uses to influence tobacco taxes are unsupported by the evidence.<sup>8</sup> This includes the industry argument that tax increases will negatively impact local businesses and lead to cross-border sales.<sup>8,10</sup> Research shows that convenience stores are more profitable in states with higher tobacco taxes, also likely reflecting shifts in spending from tobacco products to other products, as well as the store markups that raise prices by more than tax increases. As a result, tobacco revenues are maintained even as sales fall.<sup>10</sup>

The Dunham and Associates report—a single study commissioned by the tobacco industry and not subject to peer-review—cannot stand up to independent science. Furthermore, the Dunham and Associates report does not account for the economic benefit of healthier Minnesotans. Minnesota’s decision to adopt the \$1.60 per pack increase is proving to be advantageous to the overall health and wellness of the state, and economic-based studies predicted this outcome before the tax increase’s passage.

Maintaining and increasing the price of tobacco is an important component of a multi-pronged successful strategy to prevent Minnesotans, and especially the state’s youngest and most vulnerable populations, from starting to smoke. Every 10 percent increase in the real price of tobacco reduces the number of youth who smoke by more than 5 percent<sup>11</sup> and the number of youth who start smoking by 10 percent.<sup>12</sup> Youth are two to three times more responsive than the general population to price increases and are more likely to quit or cut back on smoking in order to avoid the cost.<sup>13</sup>

According to credible data, the 2013 tobacco tax increase shows that price increases work. The tobacco industry does not agree, but the facts say differently.

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<sup>8</sup> IARC Handbooks of Cancer Prevention. Effectiveness of Tax and Price Policies for Tobacco Control. Tobacco Control. Vol. 14. 2011.

<sup>9</sup> Warner, et al. Employment Implications of Declining Tobacco Product Sales for the Regional Economies of the United States. Journal of the American Medical Association. 275(16): 1241-1246. 1996.

<sup>10</sup> Huang J, Chaloupka FJ. The economic impact of state cigarette taxes and smoke-free air policies on convenience stores. Tobacco Control. 22(2): 91-96. 2013.

<sup>11</sup> Chaloupka FJ, et al. The Impact of Price on Youth Tobacco Use: Changing Adolescent Smoking Prevalence. Tobacco Control. Monograph 14. 2001.

<sup>12</sup> Tauras JA, et al. Effects of Price and Access Laws on Teenage Smoking Initiation: A National Longitudinal Analysis. National Bureau of Economic Research. 2001.

<sup>13</sup> United States Department of Health and Human Services. Reducing Tobacco Use: A Report of the Surgeon General. 2000.

### **About the Authors**

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**Raymond Boyle, PhD, MPH**, is the Director of Research Programs at ClearWay Minnesota<sup>SM</sup>. Dr. Boyle has devoted the majority of his research career to answering questions in tobacco control, including smokeless tobacco, population-based interventions, and tobacco treatment in health systems. He has published 75 scientific papers.