

A Significant Cigarette Tax Rate Increase in Indiana Would Produce a Large, Sustained Increase in State Tobacco Tax Revenues

Indiana, like other states, has enjoyed substantial new revenue each time it has raised its cigarette tax rate, followed by years of higher revenue levels. That same basic pattern, with revenues remaining at a relatively high level in future years, would occur again if Indiana increased its cigarette tax rate significantly in 2017.

In the chart below, the solid orange bars show Indiana's cigarette tax revenue since fiscal year 2000. In the years following Indiana's last cigarette tax increase in FY 2008, revenues declined by an average of 3 percent each year. Given that trend, estimates of baseline revenues in later years assume a 3 percent reduction per year due to continued smoking declines.

The brown bars show the projected new revenues from the proposed \$1.50 per pack cigarette tax increase in the first five years if it goes into effect on July 1, 2017, with an average 3 percent decline per year based on Indiana's past experience. The projected new cigarette tax revenue from the proposed increase is almost \$307 million in the first year, and with the annual 3 percent declines, the state would still be receiving almost \$203 million in additional revenue in FY 2022 compared to what it received in FY 2016. Even if Indiana's cigarette sales declined by five percent per year after that first year – an unlikely amount

given Indiana's past experience – the state would still have more than \$153 million more revenue in year 5 compared to FY 2016, for a total of almost \$1.7 billion in new revenues over that five year period compared to what it would have collected without a rate increase.

Coupled with these higher levels of revenue, the \$1.50 tax increase will generate at least \$64 million in cost-savings in the first five years from fewer smoking-caused cases of lung cancer, deaths from heart attacks and strokes, and fewer smoking-affected pregnancies and births, from smokers quitting. The state Medicaid program will save more than \$7.5 million in health care costs in the first five years. In the long term, \$2.1 billion in overall health care costs will be saved in the state.

In addition, any decline in revenues from smoking reductions will be offset by related declines in tobacco-related health care costs burdening the state. For instance, the Tobacconomics program, the Campaign for Tobacco-Free Kids, and the American Cancer Society Cancer Action Network project that the proposed \$1.50 per pack cigarette tax increase in Indiana will prevent 48,700 youth from becoming adult smokers, encourage 58,500 adults to quit, and prevent 30,700 future smoking-caused deaths.

