Commodity Taxes: Experiences with Tobacco and Alcohol Taxation

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NAS Tax Policy Webinar on Commodity Taxes
April 30, 2018
Overview

• Impact of Tobacco & Alcohol Taxes on Use and Consequences
• Comparing/Contrasting Alcohol & Tobacco Taxes
• Economic Myths & Facts
Impact of Taxes and Prices on Use & Consequences
Cigarette Prices and Adult Smoking Prevalence
United States, 1970-2014

Source: NHIS, *Tax Burden on Tobacco*, 2015, and author’s calculations
Cigarette Prices and Cessation
US States & DC, 2009

Source: BRFSS, *Tax Burden on Tobacco*, 2010, and author’s calculations

\[ y = 0.0283x + 43.083 \]

\[ R^2 = 0.371 \]
Cigarette Price and Youth Smoking Prevalence
Seniors, United States, 1991-2014

Source: MTF, *Tax Burden on Tobacco*, 2015, and author’s calculations
Taxes, Prices and Health: US, 1980-2005
Federal Cigarette Tax and Tax Revenues
Inflation Adjusted, 1955-2012

Source: Tax Burden on Tobacco, 2013, and author’s calculations
State Cigarette Taxes and Tax Revenues
Inflation Adjusted, 1955-2012

Source: Tax Burden on Tobacco, 2013, and author’s calculations
State Tobacco Control Program Funding and Youth Smoking Prevalence, United States, 1991-2009

Year

Total State Program Funding (FY10 dollars)

Percent Current Smoking

Source: ImpacTeen Project, UIC; YRBS

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Extensive econometric and other research shows that higher prices for alcoholic beverages significantly reduce drinking:

- 10 percent price increase would reduce:
  - Beer consumption by 1.7 to 4.6 percent
  - Wine consumption by 3.0 to 6.9 percent
  - Spirits consumption by 2.9 to 8.0 percent
  - Overall consumption by 4.4 percent
  - Heavy drinking by 2.8 percent
  - Generally larger effects on youth and young adults

Source: Wagenaar et al., 2009
Beer Tax and Binge Drinking Prevalence
US States, 2010

Source: Xuan et al., 2013
Alcohol Prices & Consequences

- Econometric and other research shows that higher prices for alcoholic beverages significantly reduce:
  - Drinking and driving, traffic crashes, and motor-vehicle accident fatalities
  - Deaths from liver cirrhosis, acute alcohol poisoning, alcohol-related cancers, cardiovascular diseases, and other health consequences of excessive drinking
  - Violence (including spouse abuse, child abuse, and suicide) and other crime
  - Other consequences of drinking, including work-place accidents, teenage pregnancy, and incidence of sexually transmitted diseases

Source: Xin & Chaloupka, 20129; Wagenaar et al., 2010
Alcohol Prices & Consequences

- Recent systematic review concluded:
  - Doubling of alcohol taxes would reduce:
    - Alcohol-related mortality by 35%
    - Traffic crash deaths by 11%
    - Sexually transmitted disease by 6%
    - Violence by 2%
    - Crime by 1.4%

Source: Wagenaar et al., 2010
Comparing/Contrasting Tobacco & Alcohol Taxes
State Cigarette Excise Tax Rates – 2000

CDC, Office on Smoking and Health. State Tobacco Activities Tracking and Evaluation (STATE) System.
State Cigarette Excise Tax Rates – 2006

CDC, Office on Smoking and Health. State Tobacco Activities Tracking and Evaluation (STATE) System.
State Cigarette Excise Tax Rates – 2012

CDC, Office on Smoking and Health. State Tobacco Activities Tracking and Evaluation (STATE) System.
State Cigarette Excise Tax Rates
January 1, 2018

State Cigarette Excise Tax Rates
Chicago $6.16
NYC $5.85

Anchorage $3.45

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State Cigarette & Beer Tax Increases, 2000-2015

Sources: Campaign for Tobacco Free Kids; NIAAA Alcohol Policy Information System; Brewers Almanac

Note: Does not show the multiple reductions in beer taxes and the few reductions in cigarette taxes.
State Beer Excise Tax Rates – 2017

Note: Rates are those applicable to off-premise sales of 4.7% a.b.v. beer in 12 ounce containers. D.C.'s rank does not affect states' ranks, but the figure in parentheses indicates where it would rank if included. FL, HI, ID, IA, KS, MN, NC, ND, OH, OK, TX, UT, VA, WA, and WI also apply different rates according to alcohol content, place of production, size of container, or place purchased (on- or off-premise or onboard airlines). Statewide local rate included in AL ($0.52) and GA ($0.53). Sales tax specific to alcoholic beverages included in AR, MD, MN, and DC. Case fees and/or bottle fees which may vary with the size of container included in AR and RI. Wholesale tax rate converted into a gallonage excise tax rate included in KY (10.5%) and TN (17%).
Average Beer & Cigarette Taxes
United States, Inflation Adjusted 1973-2012

Sources: Campaign for Tobacco Free Kids; NIAAA Alcohol Policy Information System; Brewers Almanac; Bureau of Labor Statistics; and authors calculations. Note: 2012 beer tax is through June 2012
Source: Tax Burden on Tobacco, Brewers’ Almanac, and author’s calculations
Economic Impact - Myths & Facts
Common Oppositional Arguments

- Alcohol and tobacco industries use several common arguments in opposition to tax increases:
  - Won’t have the intended impact in terms of reducing use and consequences
  - Will lead to extensive tax avoidance and tax evasion
  - Will harm poor and working class consumers
  - Will lead to massive job losses
Tax Avoidance & Evasion Do NOT Eliminate Health Impact of Higher Taxes

NYC Smoking Prevalence Declined as Price Increased

Source: Schroth, 2014

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Tax Avoidance & Evasion
Do NOT Eliminate Revenue Impact of Higher Taxes

Cook County Cigarette Tax and Tax Revenues - FY01-FY06

Chicago tax rises from 16 to 48 cents
Chicago tax up to 68 cents, 1/1/06
Chicago smoking ban, 1/16/06

Chicago tax rises from 16 to 48 cents
Chicago tax up to 68 cents, 1/1/06
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Curbing Tobacco Tax Avoidance & Evasion

• Adopt the “Three-Legged Stool” approach
  – License of all involved in tobacco product manufacture, import, distribution, and retail sales
  – Apply high-tech tax stamps
  – Increase enforcement resources and levy strong penalties on violators

Source: CDC, 2015
Who Pays & Who Benefits
Impact of Federal Tax Increase, U.S., 2009

- Share of Tax Increase
- Share of Reduced Deaths

<table>
<thead>
<tr>
<th>Poverty Level</th>
<th>Share of Tax Increase</th>
<th>Share of Reduced Deaths</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt; poverty line</td>
<td>11.9%</td>
<td>46.3%</td>
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<tr>
<td>1-2* poverty line</td>
<td>20.7%</td>
<td>29.5%</td>
</tr>
<tr>
<td>&gt;2* poverty line</td>
<td>67.4%</td>
<td>24.2%</td>
</tr>
</tbody>
</table>
Impact on the Poor

- Need to consider overall fiscal system
  - Key issue with tobacco taxes is what’s done with the revenues generated by the tax
  - Greater public support for tobacco tax increases when revenues are used for tobacco control and/or other health programs
  - Net financial impact on low income households can be positive when taxes are used to support programs targeting the poor
  - Concerns about regressivity offset by use of revenues for programs directed to poor

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Tobacco/Alcohol Taxes & Jobs

• Tax increases decrease consumption of taxed products
  – Small loss of jobs in tobacco/alcohol sectors

• Money not spent on taxed products will be spent on other goods and services
  – Gains in jobs in other sectors

• Increase in tax revenues will be spent by government
  – Additional job gains in other sectors

• Net increase in jobs in almost all states
Summary
Summary

- Tobacco and alcohol tax increases reduce use and consequences
- Tax increases generate significant new revenues
- Tobacco taxes rising over time in most states
- Alcohol taxes rarely increased
- Counterarguments about negative economic impact false or greatly overstated

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