



## **94-Cent Federal Cigarette Tax Increase: New Revenue, Public Health Benefits, and Cost Savings**

### **The Proposal**

An increase in the federal cigarette excise tax of 94 cents per pack and a proportional tax increase on other tobacco products have been proposed.<sup>1</sup> These tax increases would produce significant public health benefits and health care cost savings for the country.

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Current federal cigarette tax: **\$1.01<sup>1</sup> per pack**

U.S. smoking-caused health care and productivity costs: **\$10.47 per pack<sup>2</sup>**

Annual U.S. health care expenditures directly attributed to cigarettes use: Over **\$130 billion<sup>3</sup>**

Annual productivity losses from smoking : Over **\$150 billion<sup>3</sup>**

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### **Projected New Revenue**

Increasing the Cigarette Tax Rate by 94 Cents Per Pack, and All Other Tobacco Product Taxes by the Same Proportion, 2015-2024:<sup>4</sup> **\$78.217 billion**

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### **Projected Public Health Benefits of a 94-Cent Cigarette Tax Rate Increase for Adults<sup>5</sup>**

| <b>About 2.6 million</b>            | <b>Over 18,000</b>   | <b>About 398,000</b>  |
|-------------------------------------|--|---|
| Fewer adult smokers within 10 years | Adults saved from premature smoking-caused death within 10 years | Adults saved from premature smoking-caused death over 70+ years |

### **Projected Public Health Benefits of a 94-Cent Cigarette Tax Rate Increase for Youth<sup>6, 7</sup>**

| <b>1.38 million</b>                            | <b>493,400</b>  | <b>476,600</b>                                       |
|--|---|--|
| Current youth kept from becoming adult smokers | Current youth saved from premature smoking-caused death | Smoking-affected births prevented over next 10 years |

### **Projected Health Care Cost Savings of a 94-Cent Cigarette Tax Rate Increase<sup>6, 8</sup>**

| <b>\$810.89 million</b>  | <b>\$1.11 billion</b>   | <b>\$1.38 billion</b>  | <b>\$55.25 billion</b>   |
|--|---|--|--|
| 10-Year health care cost savings from fewer smoking-caused lung cancer cases | 10-Year health care cost savings from fewer smoking-affected pregnancies & births | 10-Year health care cost savings from fewer smoking-caused heart attacks & strokes | Long-term health care cost savings from adult & youth smoking declines |

## Key Considerations

- Small tax increase amounts do not produce significant public health benefits or cost savings because tobacco companies can easily offset the beneficial impact of such small increases with temporary price cuts, coupons, and other promotional discounting. Increasing the tax rate with inflation will also help to ensure that the public health and revenue benefits of the tax increase do not diminish as quickly over time.
- Raising federal tax rates on other tobacco products (OTPs) will bring the federal government greater public health benefits, revenue, and cost savings. It is important to consider all aspects of tax policy related to OTPs, including the new generation of smokeless tobacco products and closing loopholes to prevent tax evasion, to ensure that they are adequately taxed to protect public health.

## Sources, Explanations, and Notes

1. The current federal cigarette excise tax is \$1.0066 per pack. The 94.64 cents per pack tax increase in the President's FY15 budget would bring the total federal cigarette tax to \$1.953 per pack. The proposed increase in both the federal cigarette tax and the tax on other tobacco products would be increased to inflation. For the purposes of this fact sheet, numbers have been rounded up to \$1.01 for the current federal cigarette tax and \$1.95 for the proposed increased federal tax. Projections in this fact sheet are based on a 94-cent cigarette tax increase only. Full implementation of the President's proposal would produce even greater benefits.
2. Source: Centers for Disease Control and Prevention (CDC). Table 4: Smoking-Attributable Costs (2004). *Sustaining State Programs for Tobacco Control: Data Highlights, 2006*. Available at [http://www.cdc.gov/tobacco/data\\_statistics/state\\_data/data\\_highlights/2006/index.htm](http://www.cdc.gov/tobacco/data_statistics/state_data/data_highlights/2006/index.htm). Per-pack cost estimate is the average of each state's per-pack costs. Costs are in 2004 dollars.
3. Source: U.S. Department of Health and Human Services, Public Health Service, Office of the Surgeon General. *The Health Consequences of Smoking – 50 Years of Progress: A Report of the Surgeon General*. Rockville, MD: U.S. Department of Health and Human Services, 2014. Costs are in 2009 dollars.
4. Source: White House Office of Management and Budget. Table S-9. Mandatory and Receipt Proposals. *The Budget for Fiscal Year 2015*. Available at <http://www.whitehouse.gov/sites/default/files/omb/budget/fy2015/assets/tables.pdf>.
5. Source: Extrapolated from Congressional Budget Office report, *Raising the Excise Tax on Cigarettes: Effects on Health and the Federal Budget*. June 2012. [http://www.cbo.gov/sites/default/files/cbofiles/attachments/06-13-Smoking\\_Reduction.pdf](http://www.cbo.gov/sites/default/files/cbofiles/attachments/06-13-Smoking_Reduction.pdf).
6. Projections by the American Cancer Society Cancer Action Network and the Campaign for Tobacco-Free Kids, in cooperation with and using the econometric modeling of Frank Chaloupka, Ph.D., at University of Illinois at Chicago Institute for Health Research and Policy. The projections are based, in part, on research findings that a 10 percent cigarette price increase, if maintained against inflation, reduces youth smoking rates by 6.5 percent or more, adult smoking prevalence by 2 percent, and total consumption by 4 percent. The projections incorporate the effect of both ongoing background smoking declines and other changes in the tobacco product and tobacco control policy environment. The public health benefits and cost savings of a federal tax increase were calculated as the sum of the benefits of a tax increase of the same amount in every state and the District of Columbia.
7. Youth stopped from smoking and dying are from all youth ages 17 and under alive today.
8. Long-term cost savings accrue over the lifetimes of persons who stop smoking or never start because of the tax rate increase. All cost savings are in 2014 dollars.

**Note on Revenue:** Ongoing reductions in the smoking rate will, over time, gradually erode federal cigarette tax revenues (in the absence of any new rate increases). However, those declines are more predictable and less volatile than many other federal revenue sources, such as federal 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. 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.